INDEX- FUNDAMENTALS OF ACCOUNTING

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NOTE:- FOLLOW SEQUENCE GIVEN IN INDEX WHILE STUDYING

Chapter 1. THEORITICAL FRAMEWORK

MEANING AND SCOPE OF ACCOUNTING

Every individual performs some economic activity. Such activities are performed through Transactions and Events.

Transactions: - Transaction means performance of an act or an agreement.

Events: - Event means happening due to any transactions. In other words result of any transaction.

Example:- Raising money through various sources are transaction and profit or loss at the end of year is an events.

Definition of Accounting: - It's an art of recording, classifying and summarizing transactions and events in monetary term. It is also called Language of Business. It also analysis and interprets the financial transaction and events.

Procedural Aspects of Accounting

On the basis of above definition, procedure of accounting is divided into two parts:

(1) Generating financial information.
(2) Using the financial information.

(I) Generating financial information

(a) **Recording:** - It is basic function of accounting. All transaction or events are evidenced by some documents like Purchase Bill, Bank Pass Book, Sale Bill, Salary Slip etc. **Recording is done in a book called Journal.**

(b) **Classifying:** - It is systematic analysis of recorded data. In this stage transaction or events of one nature are put at one place so as to make more useful or informatics for uses. **Book containing classified information is called Ledger.**

(c) **Summarizing:** - It is preparation and presentation of classified data to internal as well as external users of financial statement. This process leads to preparation of Trial Balance, Profit and loss Account, Balance sheet.

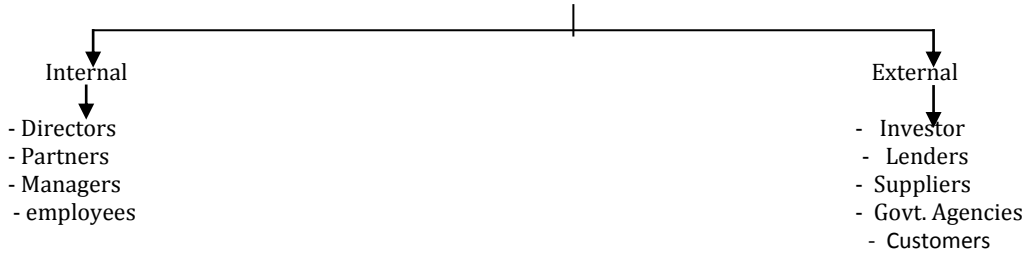
(d) **Analysis and interpretation**: financial data is analysed and interpreted so that the users of financial data can make a meaningful judgement of the financial performance(profit) and financial position of the business. Analysis helps in planning for future in better way. It is done through many tools like ratio analysis etc.

(e) **Communicating:** - It is transmission of summarized, analyzed and interpreted information to users so that they can take rational decision. It is done through accounting reports like P & L A/c, Balance Sheet etc.

2. Using the financial information

Users not only include proprietor or owner but also include investor, employees, lender, suppliers, government, customer and public at large. Accounting data is more useful if it stresses more on economic substance rather than technical form. Information is useless and meaningless unless it is relevant and material.

Users of financial statement



Objectives of Accounting are as follows:-

(i) Systematic recording of transaction: - i.e. Book-Keeping.
(ii) Ascertainment of results of above recorded transaction.
(iii) Profit and loss Accounts are prepared for ascertaining results.
(iv) Ascertainment of financial position of business: - Balance Sheet is prepared.
(v)Assisting the management for decision making, exercising control, budgeting and forecasting.
(vi) Providing information to the users for rational decision making:-
(vii) To know solvency positions

FUNCTION OF ACCOUNTING ARE AS FOLLOWS:-

1. **maintaining systematic accounting records**
2. **preparation of financial statements**
3. **meeting legal requirements.**
4. **Measurement**:- It measures past performance of business and shows current financial position.

5. **Forecasting:-** It helps in forecasting future performance and financial position using past data.
6. **Decision-making**:- It helps users to take rational decision.
7. **Comparison and Evaluation:-** It helps in comparing and evaluating financial results of different intervals.
8. **Control**:- Accounting identifies weakness of system and provides feedback for control.
9. **Meeting legal requirements**:-
   Accounting provides necessary information to government to exercise control and collecting tax. Accounting records are accepted as evidence by the court of law.

Book-keeping :- It is a process of recording transaction and events or financial data of business operation in a systematic manner. It is basic function of accounting. In it proper books of account are prepared.

Objective of book-keeping :- Complete Recording of transaction:- It records all transaction in systematic manner
Ascertainment of financial effect on business:- It shows combined effect of transaction made during accounting year.

Distinction between Accounting and Book-keeping

Book-keeping	Accounting
1. It is process of recording transaction or events	1. It is process of summarizing recorded Transactions.
2. It is a base for accounting	2. It is considered as language of business
3. Financial statements do not form part of this process.	3. Financial statement are prepared on the basis of book-keeping records
4. Managerial decisions are not taken on the basis of these records	4. Management takes decision on the basis of these records.
5. There is no sub-filed of book-keeping	5. It has several sub-filed like financial Accounting, cost accounting, management accounting etc.
6. Financial position cannot be known through book-keeping	6. Financial position are ascertained on the basis of accounting records.

Sub-field of Accounting are as follows:

1. **Financial Accounting**:- financial accounting is that branch of accounting which records financial transactions and events, summarises and interprets them and communicates the results to the users. It ascertains results (profit or loss) during an accounting period and financial position at the end.
2. **Management Accounting**:- it is concerned with generating accounting information relating to funds, cost, profits etc. as it enables the management in decision making.
3. **Cost Accounting**:- It ascertain the cost of products manufactured or services rendered and helps the management in fixing prices of product and exercising control over cost.
4. **Human Resource Accounting**:- It identify and make report on investment made in human resources of an organization.

Users of Accounting Information:- There are two categories:-
(1) Internal Management and owner
(2) External uses or outsiders.

Following are various uses:-

(1) **Investors**: They provide capital to business. They need information to assess whether to buy, hold or sell their investment.
(2) **Employees**:- Growth of employee directly related to growth of organization. So they require much information.
(3) **Lenders**:- They are interested to know capability of business to repay principal and interest.
(4) **Supplier and creditors** :- They want to know ability of firm to pay their dues. It is generally done by credit policy of concern.
(5) **Customer**;- Customers are also interested to know stability and functioning of business.
(6) **Government and their agencies** :- They are also interested due to various reasons like for allocation of scarce resources among competing enterprises, tax rate, and collection.
(7) **Public**:- They are also interested in functioning of business since they contribute substantially too many ways.

(8) Management as a whole is also interested in the accounts for various managerial decisions

Relationship of Accounting with other discipline

(1) **Accounting and Economics:-** Economics tells how scarce resources are utilized effectively. For that it is required to analysis the data of resources. Accounting provides major data base for same purpose.

(2) Accounting and statistics :-

- In accounts all individual transactions or events are important but in statistics behaviour(i.e. trend analysis, degree of variation over a period). So here statistics methods help accounting to collect data in systematic manner. Statistic techniques like time series, cross-sectional comparison etc. are used for better presentation of accounting data.

(3) Accounting and Mathematics:- Mathematics helps accounting in numbers of ways like calculation of interest, annuity to find out instalments etc.

(4) Accounting and law:- Business enterprises require complying so many laws and making its accounting to comply their requirement. Partnership firms require to comply partnership act 1932, A company require to comply requirement of company act 2013, and so many other laws like labour laws, MRTP Act, Contract Act, Negotiable Instrument Act, The sale of good Act. Thus transaction and events of accounting are guided by law.

(5) Accounting and Management-- Accounting helps management in decision making process. Accounting data are used by management as basic source documents. Large portion of accounting informations are prepared for management decision making.

Limitation of Accounting:-- Generally it is assumed that account shows true and fair view of financial statement of an enterprise. But it has following limitation

1) Accounts cannot reflect loyalty and skill of personnel which are most valuable these days.
2) Accounts never tell future of an enterprise. It only records past events that has occurred. Example- Balance sheet is prepared at the last moment of last day of accounting year. It never estimates what will happen in future.
3) Accounting mostly ignores changes in money factor like inflation.
4) In some occasions accounting principles conflict with each other.
5) Some accounting estimates require personal judgment like provisions for doubtful debts, method of depreciation adopted, writing of intangible assets etc.
6) Financial statements consider only thing which are in monetary term. Those which are not in monetary term are not considered by financial statement like human resources.
7) Different Accounting policies for treatment of same item increase the probability of manipulation.

Role of accountant in the society

There are few professions in the world having high esteem in public eyes, Accounting profession is one of them.

- It helps business to see its financial position and plan for the future.
- It serves for welfare of society in numbers of ways by having education, training and experience
- Accountants help not only in the matter of taxation, costing, management accounting, financial layout but also for financial planning and policies, budgetary policies even economics principle.
- Activities of accounting are not limited.

Area of service of Accountant

Some of services are as follows:-

(1) Maintenance of books of accountants

- Record transactions in systematic manner.
- Help ascertaining profit and loss and financial position.
- Help in planning, decision-making, controlling function.

(2) Statutory Audit

- Every company requires to audit their accounts by an external auditor.
- Accountant helps auditor to audit the accounts.

(3) Internal Audit:-- Internal auditor examines the accounting system and ensures management that accounts have been properly maintained. It improves operational efficiency of business.

(4) Taxation:- An accountant can handle taxation matter of business as well as of individual and can represent himself on their behalf to taxation authorities and settle tax liabilities. It can also reduce tax liability by proper planning.

(5) Management Accounting and consultancy services

- Management accountant is mainly responsible for internal reporting to management. It provides services for planning controlling current operation, decision-making and special matter and making long term plans.
- Accountant also provides consultancy service in area of management information system, expenditure control, new investment, working capital management, corporate planning etc.

(6) Financial advise:-- Financial advise in following area:-

- Investment, Insurance, Business expansion, Investigation etc,
  - To ascertain financial position
  - To make or buy decision
  - To ascertain reason of profit fallen
  - To increase efficiency
  - In case of fraud- Reasons, Nature, extent and suggestion for prevention
  - For valuation of business.
  - Pension scheme.

Other services

1) Secretarial work
2) Share Registration work
3) Company formation
4) liquidation of company.
5) Arbitrations
6) Cost Accounting.

ACCOUNTING CONCEPTS, PRINCIPLES AND CONVENTIONS

INTRODUCTION:- Suppose we give to prepare our accounts from five different Accountants. After some time all accountants come with their accounts by showing different profit, since all of them followed different accounting policies. In that case it will not serve the purpose of accounting. So it is necessary that there should be some principle, so that all accounts prepared by any number of accountant will show same amount of profit. So to avoid confusion and to ensure uniformity, **GAAP (Generally Accepted Accounting Principles)** are framed. GAAP describes rule for preparation of financial statement called concepts, conventions, principles etc. These principles are ground rules, which define parameters & constraints within which accounting reports are prepared.

ACCOUNTING CONCEPTS:- These are basic assumptions and conditions on the basis of which financial statements are prepared. Certain concepts are perceived, assumed and accepted in accounting to provide unifying structure and internal logic to accounting process. The concept means idea or notion, which has universal application. Financial statements are interpreted in the light of the concept, which govern accounting methods.concepts are those basic assumptions and conditions, which form the basis upon which the accountancy has been laid. Accounting concepts are only results of broad consensus. **These accounting concepts lay down the foundation on the basis of which the accounting principles are formulated.**

ACCOUNTING PRINCIPLES:-- These are body of doctrines commonly associated with the theory and procedures of accounting serving as an explanation of current practices . They act as guide for selection of accounting procedures or conventions where alternative exists. Accounting principle must satisfy following conditions:-

1.They should be based on Real Assumptions.
2.They must be Simple, Understandable and Explanatory.
3.They must be followed consistently.
4.They should Reflect Future Predictions.
5.They should be Informational for users.

ACCOUNTING CONVENTIONS:-- These emerge out of Accounting Practices, commonly known as accounting principles adopted by various organizations over a period of time. These conventions are derived by usages and practices. It improves Quality of Accounting Information.

Concepts, Principles and Convention- An overview

Following are widely accepted accounting concepts:-

(1) Separate Entity Concept or Entity Concept or business entity concept

Business Entity Concept considered business enterprises as a Separate Entity & having separate identity distinct from its owner. Therefore business transactions are recorded in the books of accounts from business point of view and not from the owner. Therefore amount invested by owner into the business is also treated as liability(internal) for business.

(2) Money Measurement Concept

According to this concept, only those transactions which can be expressed in money should be recorded in the books of accounts .

Transactions and events, that cannot be expressed in money are not recorded in books of accounts, even if they are very useful or affect the result of business.

(3) **Periodicity Concept/Accounting period concept**

According to this concept, the life of an enterprise is broken into smaller periods so that its performance can be measured at regular interval. Generally one year period is taken up for performance measurement and appraisal of financial position. So life of the enterprise is divided into smaller periods(usually one year) which is termed as 'accounting period.' At the end of accounting period, we prepare financial statements.

Periodicity Concept helps in numbers of ways

(1) Compare financial statements of different periods.
(2) Uniform and consistent accounting treatment for ascertaining profit or loss and assets of the business.
(3) Match periodic revenues with expenses for getting correct results of business.

(4) Accrual Concept

Accrual means recognition of revenue and expenses as they are earned or incurred and not when cash or money is received or paid. Revenue means gross inflow of cash, receivables and other consideration arises in the ordinary course of business activities from sale of goods, rendering services and using other enterprises resources yielding interest, royalties and dividends. Expenses are cost relating to revenue earned for a particular period.

(5) **Matching Concept:**

For ascertaining profit and loss for a particular period, expenses should be matched with revenue of that period. In financial statement, it is necessary to match revenue of the period with the expenses of that period to determine correct profit or loss.

(6) **Going Concern Concept :**

According to this concept, it is assumed that enterprise will continue its operation for indefinite period of time. It is assumed that an enterprise neither has intention nor the need to liquidate or wind up and curtail its scale of operation. It is because of this concept a distinction is made between assets and expense, fixed and current assets / liabilities.

(7) **Cost Concept/Historical cost concept:**

According to this concept, value of asset is determined on the basis of historical cost or acquisition cost or price paid for acquisition of asset.

It has following limitations:-

- In an inflationary situation when price of all commodities go up on an average, acquisition cost loses its relevance.
- Historical cost-based accounts may lose comparability.
- Many assets do not have acquisition cost like Human Resources.

8. Conservatism/ prudence concept :-

It states that accountant should not anticipate income but should provide for all possible losses.
Where there are many alternative value of asset an accountant should choose method which shows lesser value.
Conservatism essentially leads to understandability of income and wealth and should be the basis for the preparation of financial statements.

9 Consistency : - The accounting policies are followed consistently from one period to another to achieve comparability of financial statements from one period to another period.
-The concept of consistency is applied where different methods of accounting are equally acceptable.
For e.g.:- A company may adopt any depreciation method, straight line method, WDV method etc, similarly there are many methods for valuation of stocks in hand. But the company should follow the principal of consistency over years.

An enterprise should change its accounting policy in any of the following circumstances only.

(i) Bringing books of accounts in accordance with the issued accounting standards,
(ii) To compliance with provision of law.
(iii) When it is felt that new method will reflect more true and fair picture in the financial statement .

10 Materiality : -materiality principle refers to the relative importance of an item or event. According to American Accounting Association, " an item should be regarded as material if there is reason to believe that knowledge of it would influence the decision of an informed investor. Thus whether an amount is material or not, will depend on its amount, nature, size of business and level of person taking decision.
- It is an exception of full disclosure principal. As per this principle the items effecting significantly on the business of enterprises should be only disclosed separately in the financial statements.

11. full disclosures principles:-- each and every item should be properly disclosed in preparation of financial statements.

Fundamental Accounting assumptions(FAA) :- There are three fundamental accounting assumptions:

(i) Going Concern
(ii) Consistency
(iii) Accrual

When nothing is written about the fundamental accounting assumptions in the financial statements then it is assumed that these accounting assumptions have been followed in preparation of financial statements. It should be specifically disclosed if any of these assumption is not followed.

Financial statements

-The aim of accounting is to keep records systematically to ascertain financial performance and financial position of enterprises and communicate the relevant financial information to management and public at large.
- All enterprises prepare financial statements like balance sheet, profit and loss account, cash flow statement etc by following various concepts, principles and conventions etc, to know financial position

Qualitative Characteristics of financial statements :-

Are as follows:-

1. **Understandability:** The information in the financial statements must be easily understandable.
2. **Relevance:**
   -Information must be relevant for decision making need of users.
   -they must be able to evaluate past, present and future events.

(3) Reliability: -Information must be reliable to be useful for the need of users. it should be free from errors and bias . user can depend upon it and can take their decisions.

(4) **Comparability;-** User must be able to compare financial statement of different period to know financial position, performance and cash flows.

(5). Materiality :- Relevance of information is affected by its materiality.

6. Faithful Representation:- Information must be presented faithfully. The transaction and events to be reliable for user.

7. Substance over form :- the transactions and other events in financial statement should be accounted and presented in accordance with their substance and economic reality and not merely their legal form. For example, assets taken on lease are shown as an asset in balance sheet, even firm is not a legal owner.

8. Neutrality :-Information contained in financial statement must be that , it is free from bias.
9. Prudence:- Prudence means degree of caution in exercise of judgments requires to estimate condition of uncertainty so that assets and income are not overstated and liabilities and expenses are not understated.

10. Full, Fair and adequate Disclosure :-The disclosure should be full and final to assess financial position of enterprises. Principle of full disclosure implies nothing should be omitted. Principle of fair disclosure implies all transaction recorded in financial statement present true and fair view result of business. Adequate disclosure implies that information influencing the decision of users should be disclosed in details and should make sense.

11. Completeness :-- Information in financial statement must be complete. An omission may cause false or misleading and unreliable information.

Basis of accounting:-

1. Accrual basis of accounting
2. Cash basis of accounting

Accounting Standards, IFRS and IND-AS

Introduction:- Accounting as a language of business tells financial result or position of enterprises to shareholders or owner by means of financial statement. If accounting process or system is not proper, than there are chances that financial statement could be misleading and not showing fair view. So in order to make accounting or financial statement transparent, consistent, comparable, adequate and reliable, there is requirement to make accounting standardize to make accounting principle and policies. Accounting standard provide framework and standard accounting policies so that financial statement of different enterprises become comparable.

Meaning of accounting standard: The accounting standards are set of guidelines i.e. Generally Accepted Accounting Principles, that are followed for preparation and presentation of financial statements. They are accounting rules and procedures relating to measurement, recognition, treatment, presentation and disclosures of accounting transactions in the financial statements issued by the council of the institute of chartered Accountant of india.

OBJECTIVE:-

1. Main objective of accounting standards are harmonizing accounting policies and practice followed by different enterprises so that comparison of different enterprises can be done easily.
2. It reduce accounting alternative for preparing financial statement to maintain harmonization.
3. promote better understanding of financial statements.
4. enhances reliability of financial statements.
5. understand significant accounting policies adopted and applied.

Benefits:- There are following benefits

-It reduces variation between different enterprises for accounting treatment used to prepare financial statement.
-Standards discloses all information even which are not required by law.
-It helps in comparison of financial statement of companies situated in different parts of countries or world.

Limitation:-

-When there are alternative of many accounting treatment, choice of best alternative generally become difficult.
-Standards are rigid not flexible for applying accounting treatment.
-Standards can not override statute. It has to follow requirement of statute.

Overview of Accounting Standard in India

-ICAI constitute Accounting Standard Board (ASB) on 21st April 1977.
-Main Function of ASB to formulate Accounting Standards.
-ASB issued so far 32 Accounting Standard but AS-8 (Accounting for Research and development) and AS-6(depreciation) have been withdrawn so there are 30 Accounting Standards.

INTERNATIONAL FINANCIAL REPORTING STANDARDS(IFRS):-- Globalisation integrates the national economies into the international economies through trade, foreign direct investments, capital flow etc. in this age of globalization and technology, enterprises are carrying on businesses worldwide. We also understand that accounting is the language of business. Thus business enterprises around the world should not speak different languages while sharing financial informations. Therefore there is need for single set of accounting standards that can unify the accounting practices worldwide. It is difficult to understand and compare worldwide financial informations without a common set of accounting and financial reporting standards. The use of single set of high quality accounting standards would facilitate investment and other economic decisions across borders, increase market efficiency and reduce cost of capital. Thus international accounting standards **(IAS)** were developed, which are being withdrawn and superseded by International Financial Reporting Standards **(IFRS).IFRS are a set of accounting standards developed by the international Accounting standards board(IASB)**

ASSUMPTIONS IN IFRS:-

1. **Accrual Assumption**
2. **Going concern assumption**
3. **Measuring unit assumption:** measuring unit for valuation of capital is the current purchasing power. It means asset should be reflected at current(fair) price.
4. **Constant purchasing power assumption:-** it means value of capital be adjusted to inflation in the economy at the end of financial year.

APPLICATION OF IFRS IN INDIA:- India had two options, i.e. either to accept IFRS as they are or converge the Indian accounting standards in line with IFRS. It decided to converge its existing accounting standards with IFRS. The converged accounting standards titled **Ind-AS** have been issued and notified. It should be noted that the existing Indian accounting standards shall not cease to be applicable standards. They will continue to apply on entities that are not required to migrate to **IND-AS.**

ACCOUNTING POLICIES

Meaning

- Accounting Policies means specific accounting principles and method of applying those principles in the preparation and presentations of financial statement.
- The choice of specific accounting policy in different circumstances requires judgment by management.
- **ICAI trying to reduce number of accounting policies through Guidance Notes and Accounting standard in combined efforts with government and other regulatory agencies**. ICAI already achieved some progress in this respect.

Areas within different accounting polices are frequently encountered are as follows:

- Method of deprecation, depletion and Amortization
- Valuation of Inventories
- Treatment of goodwill
- Valuation of Investment
- Valuation of fixed assets etc.

Selection of Accounting Policies

- Choice of accounting policy is important decision which affects the performance of financial position of business.
- Selection of inappropriate accounting polices may lead to understatement or overstatement of performance and financial positions.
- There is no universal formula for selecting accounting policies.
- **Three major characteristics which should be considered for selection and application of accounting polices**
  - Prudence
  - Substance over form
  - Materiality
- Financial statement should be prepared on the basis of such accounting policies
- Accounting policies adopted in the preparation of financial statement should be disclosed at one place .

Change in Accounting policies:- Change in Accounting policies should be made in following conditions

a) When it is required by law.
b) Change result more appropriate presentation of financial statement.
c) Changes require to comply with accounting standard. So it is necessary to reflect change in financial statement.

Accounting as a Measurement Discipline:- Valuation Principle, Accounting Estimates

Meaning of Measurement:-- Measurement is important aspect of accounting. Transaction and Events are measured in term of money.

There are three basic elements of measurement :-
1. Identification of Objects and Events to be measured.
2. Selection of Standard or scale to be used.
3. Evaluation of dimension of measurement standard or scale. in accounting we take money as a unit of measurement

VALUATION PRINCIPLES There are four measurement base or valuation principles

1. Historical Cost
2. Current Cost
3. Realizable Value
4. Present Value

Historical Cost :- It means acquisition price or purchase price. For example, Rs.7,00,000/- paid to purchase the machine, here historical cost of machine is Rs.7,00,000/-.Under this principle, assets are valued at an amount paid or fair market value at the time of acquisition.
Accordingly Liabilities are recorded at the amount of the proceeds received in exchange for the obligation.
liability is recorded at the amount of proceeds received in exchange for an obligation.

Current Cost :- Assets are recorded at the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset has been acquired currently.
Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to be settle the obligation currently

Realizable(settlement) value :- Under this principle, Assets are recorded or valued at amount which can be obtained if assets are sold in open market.
Liabilities are carried at their settlement values; i.e. the discounted amounts of cash or cash equivalents expressed to be paid to satisfy the liabilities in the normal course of business.

Present Value :- Under this principle, Assets are recorded at present discounted value of future net cash inflows that is expected to generate in the normal course of business.
-Liabilities are recorded at present discounted value of future net cash outflows which are expected to be paid to settle liabilities in normal course of business.

Measurement and valuation :- Value relates to benefit to be derived from objects, abilities or idea. According to economist, value is the utility (i.e. satisfaction) of economic resources to the person using it. According to accountant, value of objects, abilities or ideas is always measured in term of money.

Accounting Estimates:- Transaction is measured at the amount which is paid for or by applying valuation principle. But there are some assets and liabilities which are not occurred or can not be measured by applying valuation principle like depreciation, provision for doubtful debts. But these assets or liabilities are necessary to record in books of accounts but for recording these items we need some value and for withdrawing such value we make reasonable estimates based on existing situation and past experience.
Thus management makes various estimates and assumption of assets, liabilities, income and expenses as on the date of preparation of financial statement like depreciation, amortization of expenses, provisions of employee benefits etc.
Process of estimation involves judgments based on information available.
-Estimate requires revision if changes occur regarding circumstances on which the estimate was based.
Change in estimates means difference arises between certain parameters estimated earlier and re-estimated during the current period or actual results achieved during current period.

NOTE: FOR NON COMMERCE BACKGROUND STUDENTS, THE FOLLOWING THEORY AND RELATED VIDEO CLASSES SHOULD BE STUDIED/WATCHED ONLY AFTER STUDYING CHAPTER 2(i.e. ACCOUNTING PROCESS)

Basic Accounting procedures-journal Entries

Double Entry System

- ⇨ Double Entry system of Book-keeping is accounting technique. It is scientific system of accounting.
- ⇨ According to it every transaction has two fold aspect-debit and credit and both aspects are to be recorded in books of accounting.
- ⇨ Suppose we purchase furniture ofRs. 5,00,000/-. Here two things are happening-- furniture coming into business and cash is reducing.
- ⇨ So in double entry system both the aspect are recognized and recorded.

Advantages of Double Entry system are as follows:-

(1) By using this system accuracy of accounting can be obtained through trial balance.
(2) The profit and loss of business can be determined.
(3) Financial position of business can be known at the end of accounting period by preparing balance sheet.
(4) Accounting records can be kept in details which help in control.

TRADITIONAL CLASSIFICATION OF ACCOUNTS:

a) **Personal Accounts:-**These accounts relate to natural persons(Ram, Mohan etc.), artificial/ Legal persons(Govt. companies, Clubs, co-operative societies etc and representative persons(capital a/c, Drawing A/c, Prepaid a/c, outstanding exp A/c.

b) Impersonal Accounts:

i. **Real Accounts:-** These accounts relate to the tangible or intangible real assets (i.e. accounts of properties and assets): and

ii. **Nominal Accounts:-**These accounts relate to incomes, expenses or losses.

RULES(imp):—The following **three are the basic rules (traditional method)**for recording the transaction:—

i. Personal Accounts :- Debit the receiver and credit the giver.
ii. Real Accounts :- Debit what comes in and credits what goes out.
iii. Nominal Accounts :- Debit all exp. (and losses) and credit all incomes & gains.

The left-hand side of an account is called the debit side and the right-hand side of an account is called credit side.

- **ACCOUNTING EQUATION BASED CLASSIFICATION:**

1. Assets Accounts	➢ These accounts relate to tangible or intangible real assets. Eg. Land A/c, Building A/c, Patents, Goodwill, trademark etc.
2. Liabilities Accounts	➢ These accounts relate to the financial obligations of an enterprise towards outsiders. Eg. Trade Creditors, Bills Payable, Bank Overdraft, Loans, Outstanding Exp. etc.
3. Capital Accounts	➢ These accounts relate to owners of an enterprise. Eg. Capital A/c, Drawings A/c.
4. Revenue Accounts	➢ These accounts relate to the amount charged for goods sold or services rendered or permitting others to use enterprise's resources yielding interest, royalty or dividend. Ex. Sales A/c, Discount Received A/c, Dividend Received A/c, Interest Received A/c.
5. Expenses Accounts	➢ These accounts relate to the amount incurred or lost in the process of earning revenue. Ex. Purchase A/c, discount allowed A/c, Royalty paid A/c, Interest Payable A/c, Loss by Fire A/c etc.

Distinction between Real Account and Nominal Account

Real Account	**Nominal Account**
⇨ These accounts relate to properties of the business.	⇨ These accounts relate to expenses, losses, income and gains.
⇨ These accounts are shown in Balance Sheet.	⇨These accounts are shown in profit and loss account.
⇨ Closing balances of these accounts are carried over to the next year as opening balances.	⇨ Closing balance of these accounts are closed by transfer to profit and loss account.
⇨ These accounts indicate financial position of the business.	⇨ These accounts assist in calculating profit and loss of the business.
⇨ As per double entry rule, property received is debited and property given is credited.	⇨ As per double entry rule expenses and losses are debited and income and gains are credited.

JOURNAL:A Journal is a book in which transactions are recorded in the order in which they occur i.e. in Chronological order. A Journal is the primary books of account under which all the transactions are recorded with complete narration on the basis of three basic rules given for recording the transactions. **The process of recording a transaction in a journal is called Journalizing**. An entry made in the journal is called a 'Journal Entry'. A journal entry is an analysis of all the effects of a single transaction on the various accounts, usually accompanied by an explanation. For each transaction, this analysis identifies the accounts to be debited or credited.

Note:— The 'Ledger Folio column' is filled in at the time of posting into the ledger and not at the time of journalizing.

- **Advantages of Journal**

➢ **Chronological record:-** It records the transactions in the order in which they occur.
➢ **Explanation of transaction:**- Each journal entry in the journal carries narration which gives a brief explanations of the transaction.
➢ **Recording the both aspects:**- Both the aspect (i.e. debit and credit) of a transaction are recorded in the journal. Since the amounts recorded in both debit amount column and credit amount column must be equal, the possibility of accounting error is reduced and the detection of errors, if any committed becomes easy.

- **Limitation of journal:-** When the number of transactions is large, it is practically impossible to record all the transactions through one journal because of the following reasons.
  i. The system of recording all the transactions in a journal required (a) the writing down of the name of the account involved as many times as the transaction occur; and (b) an individual posting of each account debited and credited and hence involves the repetitive journalizing and posting labour.
  ii. Such system does not provide the information on prompt basis.
  iii. Such a system does not facilitate the installation of an internal check system since, the journal can be handled by only one person.
  iv. The journal becomes bulky and luminous.

To overcome the shortcomings of the use of the journal only as a book of original entry, the journal is subdivided into special journal.

- **NARRATION:** The narration is the explanation of the entry and facilitates quick understanding. The length of the narration depends on the complexity of the transaction and whether management wants the journal itself to contain all relevant information. Most often narration are in brief.

➢ **Compound Entry:** When more than two accounts are involved in a transaction and the transaction is recorded by means single journal entry instead of passing several journal entries, such single journal entry is termed as 'Compound Journal Entry'. A compound journal entry may also be passed if there are more transactions of the same nature, taking place on the same date. It may be recorded in the following three ways:

a) by debiting one account and crediting two or more accounts; or
b) by debiting two or more accounts and crediting one account; or
c) by debiting several accounts and crediting several accounts.

Example:- Paid Rs. 920 to Mr. Gopal in full settlement of his account of Rs. 1,000.

Gopal A/c	Dr.	1,000
To Cash A/c		980
To Discount received A/c		20

➢ **OPENING ENTRY**:-- A journal entry by means of which the balances of various assets, liabilities and capital appearing in the balance sheet of previous accounting period are brought forward in the books of current accounting period is known as 'Opening Entry'.
While passing an opening entry. All those accounts which denote what the business possesses (assets) are debited and all the accounts showing amounts due by the business (liabilities) are credited.

⇒ If capital is not given, it can be easily found out by deducting liabilities from assets.
Opening entries are the following:

Cash Account	-	Dr.
Cash at Bank Account	-	Dr.
Sundry Debtors Account	-	Dr.
Stock Account	-	Dr.
To Sundry Creditors Account		
To Capital Account		

- The opening entry is made in the journal. At the end of the trading period, closing entries are made, the object being to close the books.

LEDGER ACCOUNTS:-- A ledger is a principal book, which contains all accounts to which the transactions recorded in the books of original entry are transferred. As the ledger is the ultimate destination of all transactions**, the ledger is called the 'Book of Final Entry or secondary record.'**The ledger may be kept in the form of a bound book, a loose-leaf set of pages, or some kind of electronic storage device such as magnetic tape or floppy diskettes or CDs, but it is always kept current in a systematic manner.

Utility of the ledger:

⇒It provides complete information about all the accounts in one book.
⇒It enables to ascertain what the main item of revenues is.
⇒It enables to ascertain what the main items of expenses are.
⇒It enables to ascertain what the assets are and of what value.
⇒It enables to ascertain what the liabilities are and of what amounts.
⇒It facilitates (i.e. make easy) the preparation of Final Accounts.

➢ **DISTINCTION BETWEEN JOURNAL AND LEDGER:**

Journal	Ledger
⇒ It is a book of primary entry. ⇒ It is prepared on the basis of source documents of transactions. ⇒ Recording of transactions in the journal it first stage. ⇒ It is prepared to record all transactions in chronological order. ⇒ It is not balanced. ⇒ Narration is written for each entry ⇒ The process of recording in journal is called 'Journalizing' ⇒ Journal directly does not serve as basis for the preparation of final accounts.	⇒ It is book of final or secondary entry. ⇒ It is prepared on the basis of Journal. ⇒ Recording in the ledger is second stage. ⇒ It is prepared to know the net effect of various transactions affecting a particulars account. ⇒ All ledger accounts (except nominal account) are balanced in the ledger. ⇒ No narration is required. ⇒ The process of recording in the ledger is called 'posting' ⇒ Ledger serves the basis for the preparations of final accounts.

➢ .**POSTING TRANSACTIONS TO THE LEDGER:**

Posting is the transferring of amounts from the journal to the appropriate accounts in the ledger. It is to be done daily, weekly, fortnightly or monthly according to the convenience and requirement of the business.

It is necessary to post all journal entries into various accounts in the ledger because posting helps us to know the net effect of various transactions during a given period on a particulars account.

➢ **Cross referencing:**

The process of using numbering, dating and / or some other identification to relate each positing to the appropriate journal entry is known as cross-referencing. Transactions from the journal are often posted to several different accounts, but cross-referencing allows users to find all components of the transactions in the ledger.

➢ **Balance of an Account**:-- After posting into the ledger the next stage is to ascertain the net effect of all transactions posted to an account.

Balance of an account is the difference between the total of debit and total of credit appearing in an account. It signifies the net effect of all transactions posted to that account during a given period. It may be debit balance or credit balance or a nil balance depending upon whether the debit or the credit side total is higher.

IMP--Normally, personal Accounts and Real Accounts are balanced. Nominal Accounts are not usually balanced but are closed by transfer to Trading and Profit and Loss A/c.

➢ **DEBIT BALANCE:-**A debit balance shows that:

i. Money is owing to the firm; or
ii. The firms owns some property (cash , goods, furniture etc.); or
iii. The firm has lost money or has incurred some expenses.

➢ **CREDIT BALANCES:** :-- A credit balances shows that: —

a) Money is owing to some person ; or
b) The firm has given up so much property ; or
c) The firm has earned an income.

➢ **VOUCHER:**

(i.) A voucher is documentary evidence in support of transaction;
(ii.) A cash memo showing cash sale;
(iii.) An invoice showing sale of goods on credit;
(iv.) The receipt made out by the payees when cash is paid to him are all example of vouchers.

On the basis of the above, first of all, one writes out -which accounts are to be debited and which accounts are to be credited. This is done in the journal.

TRIAL BALANCE :- Trial Balances are internal report that list each account in the General ledger together with the balance it that account as of the trial balance date.

All businesses periodically tabulate the debit and credit balances separately in a statement to see whether the total of all debit balances agrees with the total of credit balances or not. Such a statement is known as the trial balance. A trial balance may be taken at any time the accounts are up to date. The purpose of the trial balance is two fold:

- to help check on accuracy of posting by proving whether the total debit equal the total credits; and
- To established a convenient summary of balances in all accounts for the preparation of formal financial statements.

- When the total of the debit balances agrees with the total of credit balances, it is a good proof that, the ledger has been correctly written up. However, it is not a conclusive proof of accuracy. Many may remain even if a trial balance agrees
- **sequence of Accounting Procedure or the Accounting Cycle:**

a) Recording the transactions in the journal.
b) Preparing Ledger accounts on the basis of the journal or posting into the ledger.
c) Taking out the trial balance to prove arithmetical accuracy.
d) Preparing the profit and loss accounts or the income statement for the period concerned; and.
e) Preparing the Balance Sheet to show the financial position at the end of the period.

SUBSIDIARY BOOKS

When number of transactions is numerous, it is practically impossible to record all the transactions through one journal because of its limitations. To overcome the shortcomings of the use of the journal entry, **the journal is sub divided into special journals.**

The journal is subdivided in such a way, that a separate book is used for each category of transactions, which are repetitive in nature and are sufficiently large in number.

Special journal, refer to the journals meant for specific transactions of similar nature. **Special journals are also known as subsidiary books or day-book.**

In any large business organization, the following special journal (or subsidiary books) are generally used:

Name of Books	Transactions to be recorded
Cash Journals:	
a) Cash book (simple)	⇒ Cash transactions
b) Cash book with discount column	⇒ Cash and discount transactions
c) Cash book with bank and discount column.	⇒ Cash, Bank and discount transactions
d) Petty cash book.	⇒ Petty cash transactions.
Goods Journals:	
a) Purchase book	⇒ Credit purchase of goods
b) Sales book	⇒ Credit sales of goods
c) Sales returns book	⇒ Goods returned by those customers to whom goods were sold on credit.
d) Purchase returns book	⇒ Goods returned to those suppliers from goods were purchased on credit
Bills journals:	⇒ Bills receivable Drawn ⇒ Bills
a) Bills receivable book b) Bills payable book	

Advantages of subsidiary Books:-

i. Division of work.
ii. Specialization and efficiency.
iii. Saving the time.
iv. Availability of information's.
v. Facility in checking.

CHAPTER 2. ACCOUNTING PROCESS

CHAPTER 2A. JOURNAL ENTRIES(INCLUDING GST)

IMPORTANT NOTE:-

i. **FOR LEARNING ACCOUNTING OF JOURNAL ENTRIES – FOLLOW ONLY VIDEO CLASSES. NO OTHER NOTES REQUIRED**
ii. **Theory of GST (applicable in all accounting) is given below.**
iii. **Journal entries should be learned by only those students who are from non-commerce background OR they are weak in accountancy.**

Meaning of GST :- Goods and service tax (GST) is a comprehensive indirect tax levied at the prescribed rate on every supply, i.e., sale of goods and/or service except on petroleum and alcohol for human consumption. Supply of goods means sale of goods whereas supply of services means rendering of services.

Characteristics of Goods And Services Tax (GST)

1. GST is a comprehensive Indirect tax: GST is a comprehensive indirect tax which replaced all indirect taxes that were earlier levied except custom duty, taxes on alcohol for human consumption, taxes on petroleum and taxes levied by Local Bodies.

2. GST is a value added tax: GST is Value Added Tax because GST Paid (termed as Input GST) is set off against GST collected (termed as output GST). As a results, GST is levied on the incremental value of goods and/or services supplied (sold). For example, goods purchased for Rs10,000 paying IGST @ 18%,i.e., Rs1800 are sold for Rs 15,000 charging IGST @ 18%, i.e., Rs 2,700. Rs 1,800 paid at the time of purchase is set off against Rs 2,700 charged at time of sale and balance Rs 900 is payable in the Government Account. In effect, GST is levied on differential amount of sale and purchase,i.e. 5,000.

3. GST Paid is not Cost: GST paid (Input GST) on purchases of goods and/or service is not a cost for the purchaser but is an asset since it can be set off against GST collected on sale of goods and/or services. Similarly, GST collected (Output GST) on sale of goods and/or services is not an income of the seller but is a liability and is payable in the government account after adjusting Input GST in the prescribed order.

4. **Uniform GST Rate on goods and services across all states:** Every state and union territories have their own Goods and Services Tax Acts. However, GST is levied on goods and/or Services supplied (sold) under each classification at the same rate.

Objective Of Goods And Services Tax (GST):-

1. **Developing Common national Market:** GST is levied at same rate on similar Goods and Services in all the states and union territories. For example, Computers sold across India are levied GST (Say) @ 18%. It sets a ground for developing common national market.
2. **Ease of Doing Business:** In the pre-GST period, there were many indirect taxes administered by different authorities. As a result, a business had to register itself separately under each such Act and also had to comply with each such indirect tax. For example, Excise Duty, sales Tax and Service Tax etc. were separately administered. The introduction of GST has eased the going of business as it will be registered and administered only under one indirect tax, i.e., GST. Hence, ease of doing business.
3. **No cascading Effect of GST:** GST paid (Input GST) on purchases of goods and/or services is set off against GST collected on sale of goods and/or services. As a result, GST is levied on the difference between sale value and purchase value. In effect, GST does not have cascading effect.

4. **To Simplify Indirect Tax Regime by having one Tax and Fewer rate of taxes:** GST has replaced many indirect taxes (Excise duty, Sale Tax, Service etc.).The earlier indirect tax regime had been complex both for the Government and business. Since, GST has replaced almost all indirect taxes, it simplifies the application and administration of indirect taxes.
5. **Better Tax Management:** GST, being administered through computer system beside it being a single indirect tax, has resulted in better tax management as tax evasion is controlled besides timely collection of tax. For example, credit for input GST is granted if the tax payer collecting GST has paid the tax in government account.
6. **Goods becoming cheaper:** Since GST paid (Input GST) is set off against GST collected (Output GST), GST does not have cascading effect as against earlier years when there was no set off of indirect taxes. (e.g. Excise Duty) paid against indirect taxes collected. As a result, goods and services have become cheaper.
7. **Attracting Foreign Investors:** Investments from outside India were not high because of multiple indirect taxes. Introduction of GST and removal of multiple indirect taxes shall increase Foreign direct Investment (FDI) in India.
8. **Uplifting GDP:** The structure of GST is such that is levied at every stage of sale of goods and/or services. It means businesses will be largely through recorded transactions resulting in tax collection by the government due to recorded sales resulting in uplifting GDP.

Classification OF GST :- GST in levied under following three categories:

1. **Central GST (CGST):-** CGST is levied on intra-state supply (supply within the state) of goods or services or both along with SGST. In case of intra-state supply/sale **both** CGST and SGST is levied at half of the prescribed rate of tax. For ex., if rate of GST is 18%, 9% will be levied as CGST and 9% as SGST (or UTGST).
2. **State GST (SGST) or union Territory GST (UTGST):-** SGST (or UTGST) is also levied on intra-state supply (i.e., supply within the state) of goods and/or services or both along with CGST. In case of intra-state supply(sale) both SGST (or UTGST) and CGST is levied at half of the prescribed rate of tax. For example, if rate of GST is 18%, 9% will be levied as CGST and 9% as SGST

   Note: For the discussion, SGST and UTGST are referred as SGST.
3. **Integrated GST (IGST):-** IGST is levied on inter-state supply (i.e., supply outside the state) of goods and/or services, import of goods and/or services into India and export of goods and/or services from India.

Reverse charge:- Reverse charge means that GST is not charged by the person selling the goods and/or services or both but is paid by the person purchasing the goods and/or services or both.

Certain purchases of goods and services are placed under Reverse charge. Thus, the seller of goods and/or services placed under reverse charge will not charge GST but instead the purchaser of goods and/or services will deposit GST in the Government account and claim it as Input GST. **Goods and/or services falling under reverse charge Mechanism are**: payment of fee to lawyer; payment for use of copyright; purchase of Goods and/or Services by registered person from unregistered person; transports of goods; Insurance commission; and sponsorship.

Categorising GST FOR Accounting Purpose:- GST paid (Input GST) individually (Input CGST, SGST and IGST) is set off against GST Collected (Output GST) individually (Output CGST, SGST and IGST) in the prescribed order. Therefore, it is necessary that separate accounts for Input GST and Output GST for each category of GST, i.e., CGST, SGST and IGST be maintained. It will enable the taxpayer to follow prescribed order of setting off the each category of GST. The GST Account maintained are:

1. **Input CGST:** Input CGST is the CGST paid on intra-state purchase (supply) of goods and/or Services or both. Input CGST can be set off against CGST collected, i.e., output CGST and IGST collected (i.e., output IGST) in that order. Besides the above, taxpayer may pay CGST in Government Account. It is also termed as input CGST.
2. **Input SGST:** Input SGST is the SGST paid on intra-state purchase (supply) of Goods and/or Services output IGST) in that order. Besides the above, taxpayer may pay SGST in Government Account. It is also termed as Input SGST.

REMEMBER:-- On intra-state supply of goods and/or services or both, both CGST and SGST are levied at 50% of the specified rate. For example, if specified rate is 18%, both CGST and SGST will br levied @ 9% each.

3. **Input IGST:** Input IGST is the IGST paid on inter-state purchase (supply) of Goods and/or Services or both and it can be set off against IGST collected (i.e., Output IGST), CGST Collected (i.e., Output CGST) and SGST collected (i.e., Output SGST) in that order. IGST Is also levied on goods and/or services imported from outside the country. Beside the above, taxpayer may pay IGST in Government Account. It is also termed as Input IGST.
4. **Output CGST:** Output CGST is the CGST collected on intra-state sale (supply) of Goods and/or Services or both along with SGST.
5. **Output SGST:** Output SGST is the SGST collected on intra-state sale (supply) of Goods and/or Services or both along with CGST.
6. **Output CGST:** Output IGST is the IGST collected on intra-state sale (supply) of Goods and /or Services or both. In the case of intra-state sale only IGST is levied.

ACCOUNTING OF GST PAID (INPUT GST):-

When GST Paid on Supply (Purchase) can be set off against GST Collected?

GST Paid on purchase of goods and/or services or both that can be set off against; GST Collected on sale of goods and/or services or both is debited to a separate, account head, i.e., Input CGST or Input SGST or Input IGST as the case Thus, GST Paid on purchases of goods and/or services or both that can be set off against GST Collected is debited to Input GST (under CGST, SGST or IGST as per category of GST Paid) Account. Therefore, accounting of GST Paid on purchase of goods and/or services or both differ depending on whether GST Paid can be set off against GST Collected or not

When GST Paid on Supply (Purchase) cannot be set off against GST Collected?

GST Paid on purchase of goods and/or services or both that cannot be set off against GST Collected on sale of goods and/or services or both is debited to the expense head or asset head on which it has been paid. Stating differently, it is accounted as cost. For example, Mohit visits a restaurant and paid a bill or 1,200 inclusive of CGST 100 and SGST 100. GST Paid for food and beverages bill is not allowed to be set off against GST Collected (Output GST). It means that Mohit should debit Business Promotion Account by 1,200.

Examples of supply/Purchase of Services/goods on which GST Paid cannot be set off and thus,is Cost are:

(i) Food and Beverage Expenses (Restaurant Bills);
(ii) Membership Fee of Club, Health and Fitness Centre;
(iii) Health Insurance;
(iv) Repairs and Maintenance (Building);
(v) Free Gifts to Staff;
(vi) Purchase of Vehicles by a non-transport enterprises;
(vii) Goods and/or Services for personal consumption; and
(viii) Goods and/or services purchased for sale which are exempt from levy of GST

GST paid (Input GST) is reversed in the following cases:

(i) Goods lost or stolen;
(ii) Goods destroyed;
(iii) Goods written off;
(iv) Goods given as gift (charity);
(v) Goods given as free sample; and
(vi) Goods as may be prescribed.

Supply of following Goods and/or services are exempt from levy of GST:

(i) Salaries and wages;
(ii) Supply of services to Government;
(iii) Supply to embassies of other countries/ UNO;
(iv) Educational services;Health services; and
(vii) Electricity and water bills.

CHAPTER 2B. LEDGER ACCOUNT AND TRIAL BALANCE

I. **FOR LEARNING THIS CHAPTER – FOLLOW ONLY VIDEO CLASSES. NO OTHER NOTES REQUIRED.**

II. **This chapter should be learned by only those students who are from non-commerce background OR they are weak in accountancy.**

CHAPTER 2C. SUBSIDIARY BOOK AND CASH BOOK

MEANING OF KEY TERMS USED IN THE CHAPTER

1. **Special Purpose Books or subsidiary books:-** Sub-division of the Journal into various books recording transactions of similar nature are called **subsidiary books**.
2. **Cash Book** - Cash Book is a Special Purpose Subsidiary Book or Journal in which cash receipts and cash payments are recorded.
3. **Kinds of Cash Book**
   - I. **Simple Cash Book** : It is a cash book in which only cash transactions are recorded. It has only one column on each side of the cash book.
   - II. **Double-column or Two-column Cash Book** : It is a cash book which has two columns on each side to record cash receipts and payments besides cash discount allowed and received. The discount column on the debit side represents the discount allowed to the debtors while the discount column on the credit side represents the discount received from creditors.
   - III. **Triple-column or Three-column Cash Book** : It is a cash book which has three columns on each side, one column to record cash transactions, one for bank transactions and one for cash discount allowed and received.
   - IV. **Petty Cash Book** : It is a cash book in which payments of small amounts are recorded.
4. **Imprest System of Petty Cash**: It is a system whereby an estimate of expenditure is made and the estimated amount is given to the Petty Cashier. Thereafter, he submits the statement of expenses at the end of the designated period, which is reimbursed to him to make the petty cash equal to the original petty cash amount.
5. **Cash Discount** : Cash discount is the amount of discount received or allowed on cash payments and cash receipts respectively. Discount received is an income for the, business while discount allowed is an expense.
6. **Cheques in Hand** : It means cheques that have been received but have not been deposited into bank.
7. **Contra Entry** : It means a transaction involving both cash and bank. Such transactions though recorded in the cash book are not posted into the ledger. In the folio for ledger letter 'C' is written to indicate that it is a contra entry.

Business transactions are numerous and it becomes difficult to record all the transactions in one book of prime entry, i.e., Journal Book. For example, in a business, most of the transactions may relate to receipt and payment of cash, sale of goods and their purchase. It is convenient to maintain a separate book for each such class of transactions—one to record cash transactions, another to record purchase of goods and yet another to record sale of goods. Book of this type is called a book of original entry or prime entry. Journal entry is not passed for the transactions recorded in such books. They are posted to the ledger accounts. The system is called the **Practical System of Accounting**. These books of original or prime entry are also called a **Special Journal** or **Subsidiary Books.**

SUBSIDIARY BOOKS OR SUB-DIVISION OF JOURNAL:- We had discussed earlier that it is practically difficult to record all the transactions in only one book of prime entry. For convenience, the Journal is divided into a number of Subsidiary Books. These are

1. **Cash Book**: To record receipts and payments of cash, including receipts into and payments out of the bank.
2. **Purchases Book**: To record credit purchases of goods dealt in by the firm. All credit purchases of goods are recorded in this book.
3. **Sales Book**: To record the credit sales of goods dealt in by the firm.
4. **Purchases Return Book**: To record the return of goods previously purchased on credit
5. **Sales Return Book**: To record the return of credit sales made by customers.
6. **Journal Proper**: To record the transactions which cannot be recorded in any of the books mentioned above.

NOTE:- It may be noted that in all the above cases the word 'Journal' may be used for the word 'book'.

Advantages of Subsidiary Books:- The use of subsidiary books has the following advantages:

(i) **Division of Work**: Since in the place of one Journal, subsidiary books are also maintained, accounting work can be divided among a number of persons.

(ii) **Specialisation and Efficiency**: When the same work is handled by a particular person for a considerable time, he acquires expertise in it and becomes efficient in handling it. Thus, accounting is done more efficiently.

(iii) **Saving of Time**: Various accounting processes can be undertaken simultaneously because of the use of number of books. Thus, it leads to saving of time.

(iv) **Availability of Information**: Since a separate book is maintained for each class of transactions, information relating to each class is available at one place.

(v) **Facility in Checking**: In case, the Trial Balance does not agree, locating the error or errors is facilitated by the existence of separate books. Since the number of transactions is less in each subsidiary book as compared to only one Journal, it is easy to locate the errors.

(vi) **Responsibility**: Division of work results in assigning a particular job to a particular person. If an error is committed in recording, responsibility can be easily fixed.

CASH BOOK:- Cash Book is a book of prime entry in which cash and bank transactions are recorded in a chronological order, i.e., as they occur. Cash receipts are recorded on the debit side of the Cash Book and cash payments on the credit side. Cash transactions in a firm are generally numerous, therefore, it is convenient to maintain separate Cash Book.

Features of Cash Book

1. Only cash and bank transactions are recorded in the Cash Book.
2. Cash and cheque receipts are recorded on the debit side while cash and cheque payments are recorded on the credit side.
3. It records only one aspect of the transaction, i.e., cash or bank.
4. Cash and bank transactions are recorded in the Cash Book in a chronological order, i.e., in order they take place.
5. It performs the function of both Journal and the Ledger at the same time.

Cash Book—A Subsidiary Book and a Principal Book:- Cash and bank transactions are recorded in the Cash Book and on the basis of such records, Ledger Accounts are prepared. Therefore, Cash Book is a Subsidiary Book. At the same time, Cash Book by itself is Cash Account and Bank Account. As a matter of fact, the balances are entered in the Trial Balance directly. Cash Book, therefore, is a part of the Ledger also. Hence, it is also a Principal Book. Cash Book is, thus, both a Subsidiary Book and a Principal Book.

Kinds of Cash Books :- There are three types of Cash Books:

1. **Simple Cash Book or Single Column Cash Book**-- For recording cash transactions only.
2. **Double-column or Two-column Cash Book**: For recording cash and cash discount transactions.
3. **Triple-column or Three-column Cash Book**: In this cash book there are three columns of amount on both sides. The first for discount, the second for cash and the third for bank transactions. Discount allowed on payment received is recorded on the debit side, while discount received on payment made is recorded on the credit side.

In addition to the main Cash Book, firms sometimes also maintain a Petty Cash Book.

(1) Simple Cash Book or Single Column Cash Book:- Simple Cash Book looks like an account, with one column on each side. On the left-hand side receipts of cash are recorded and on the right-hand side payments are recorded.

Followings are main columns in cash book:

(i) **Date**: Date of transaction is written.

(ii) **Particulars**: The name of the account under which cash has been received or paid is written.

(iii) **Voucher No**: The document supporting a transaction is called a Voucher. There are two types of cash vouchers: (1) Receipt Voucher and (2) Payment Voucher.

(iv) **Ledger Folio**: In the column for L.F., page number of the Ledger, where the amount is posted, is written.

(v) **Amount**: The amounts received are written on the Debit side and amounts paid are written on the Credit side.

Question 1. Enter the following transactions in Single Column Cash Book:

2019		₹
April 1	Cash in Hand	5,000
April 2	Cash sales	10,000
April 4	Received from Pravin on account	15,000
April 5	Purchased goods	6,000
April 7	Loan given to Mohan	2,000
April 8	Sold goods to Sohan in cash	8,000
April 10	Purchased furniture	4,000
April 12	Purchased postal stamps	500
April 14	Sold goods to Ram on credit	4,500
April 15	Salary paid to accountant	5,000
April 18	Purchased goods	2,500
April 19	Paid freight	200
April 20	Withdrew for personal use	4,000
April 22	Received commission	2,000
April 24	Paid to Shyam	2,500
April 27	Received from Mohan	2,000
April 29	Paid to Grish	1,000
April 30	Rent Paid	5,000

Question: 2. Write-up Single Column Cash Book for the month of April, 2019 of Rahulfrom the following transactions:

		₹
April 1	Cash in Hand	25,000
April 2	Cash sales	2,60,000
April 4	Deposited cash into bank	2,00,000
April 3	Paid cheque to creditors of ₹ 49,900 after deducting cash discount of	3,100
April 4	Wages paid in cash	22,500
April 4	Cash sales of ₹ 1,80,000 of which banked on 7th April	1,50,000
April 9	Paid to Transport Corporation of India against their Bill No. 265	4,500
April 10	Paid to wages in cash	28,500
April 17	Paid to Casual Labour	3,600
April 19	Cash sales	1,14,000
April 20	Deposited cash into Bank	75,000
April 21	Purchased goods on credit from U & Co.	15,000
April 26	Cash sales	1,92,000
April 28	Paid cash to Sharp, a creditor, after deducting discount ₹ 500	9,500
April 29	Paid electricity bill in cash	9,000
April 30	Cash collected from Mahesh (Debtor) after allowing discount of ₹ 2,500	45,000

Most important note:- Cash Column cannot have a Credit Balance:- Cash Column in the Cash Book cannot show a credit balance because cash payments cannot exceed cash receipts. At best, it can show nil balance when total cash receipts are equal to total payments.

Question:**3**. Inder commenced business on 1st April, 2019 with ₹ 2,00,000 as capital. He made following transaction in the first fortnight of April month. You are required to enter the transaction in his Cash Book with two columns.

Date	Particulars	₹
2019	Purchased Furniture and paid Cash	25,000
April 1	Paid for Computer and Printer	30,000
	Purchased Goods	30,000
April 4	Sold Goods for cash	15,000
April 5	Purchased Goods	20,000
	Paid to Mohan	56,000
	Received discount from him	1,000
April 6	Received Cash from Krishna & Co.	60,000
	Allowed them Discount	2,000
April 7	Paid for Petty Expenses	1,500
April 8	Cash Purchases	15,000
April 9	Cash Sales	20,000
April11	Received from Mohan Bros.	6,000
April15	Paid for Telephone	2,500
April15	Paid to Ali & Co.	4,000
	Discount allowed by them	80
April15	Purchased goods from Ali & Co.	15,000

Question:**4**. Write a Three-column Cash Book with cash and bank columns from the following transactions:
2019 March 1. Cash in Hand 15,000.
March 3. Purchased goods for cash 6,000.
March 5. Deposited in bank 5,000.
March 8. Cash sales 10,000.
March 10. Cash withdrew from bank for office use Rs 2,000.
March 12. Received cash from Damini Rs 3,000, allowed her discount of Rs 100
March 15. Received cheque from Dolly Rs 2,000 and deposited in the bank on the same day, allowed her discount 75.
March 18. Received cheque from Deepak for Rs 5,000 (not banked).
March 19. Cheque received from Deepak deposited in the bank.
March 24. Paid to Chander by cheque Rs 2,500, he allowed discount Rs 125.
March 27 Withdrew from bank for personal use Rs 1,500.
March 28. Sold goods on credit to Ashok Mitra Rs 4,000.
March 30. Purchased goods on credit from Chander Rs 5,000.
March 31. Received cheque from Ashok Mitra Rs 2,000 and deposited in the bank.
March 31. Bank charges for the month Rs 100.

Question 5. Records the following transaction in a Three-column Cash Book on 31st January, 2019:

Date	Particulars	₹	Date	Particulars	₹
2019			2014.		
Jan. 1	Cash Balance	1,000	Jan. 16	Bought goods	6,000
Jan. 1	Bank Balance	14,500	Jan. 19	Paid Shyam by cheque	3,700
Jan. 1	Cash received from sale of shares	60,000		Discount received from him	300
			Jan. 20	Drew form Bank	3,000
Jan. 2	Paid into Bank	50,000	Jan. 22	Cash drawn from bank for personal use	2,000
Jan. 3	Purchased goods from M/s. Agarwalla for ₹ 13,000 and paid by cheque ₹ 12,000 in full settlement		Jan. 24	Cash Sales	1,700
			Jan. 27	Received from Sharma	18,000
				Discount allowed	500
			Jan. 28	Deposited cash into Bank	15,000
Jan. 4	Paid Wages	2,500	Jan. 28	Gave cheque for cash Purchases	2,000
Jan. 5	Received from Mohan a cheque for ₹ 9,800 against dues of ₹ 10,000 in full settlement of his account		Jan. 30	Paid rent by cheque	2,000
Jan. 8	Mohan's cheque deposited into Bank				
Jan. 14	Paid for stationery	1,500			

Bank Overdraft:- A firm may have an overdraft facility from a bank. It means the firm can overdraw from its bank up to the limit allowed by the bank. Amount withdrawn in excess of its own money in the bank is known as a **bank overdraft**. Bank overdraft is shown as a credit balance meaning thereby that the business has to pay that amount to the bank.

Remember cash column will always have a 'debit balance' which is shown on the assets side of the Balance Sheet or nil balance. But the bank column may have either debit or credit balance which is shown on the assets or liabilities side of the Balance Sheet respectively.

Question 6. Prepare Three-column Cash Book with Cash, Bank and Discount Column from the following information:

2019	₹	2019	
Sept. 1 Cash in Hand	7,500	Sept. 15 Goods Purchases and Paid by Cheque	2,000
Bank Overdraft	3,500		
Sept. 2 Paid Wages	200	Sept. 20 Paid Rent	500
Sept. 5 Cash Sales	7,000	Sept. 25 Drew from bank for personal use	400
Sept. 10 Cash Deposited into Bank	4,000	Sept. 30 Salary Paid	1,000

Question:**7**. From the following cash and bank transaction of Mr. Gupta, owner of Gupta Stationery House, prepare a suitable Cash Book and strike the balances at the end of the month:

2014		₹
April. 1	Cash in Hand	8,800
	Cash at Bank	11,000
April 3	Purchased goods from M/s. Agarwalla and paid by cheque	1,400
April 9	Cash purchases ₹ 1,600 less trade discount 5%	
April 10	Purchases postage stamp	100
April 12	Proceeds of Cash sales of ₹ 10,000 deposited into bank	
April 14	Drew cash for personal use	820
April 15	Received from Naresh cash ₹ 600 and cheque ₹ 1,000-both deposited into bank allowed ₹ 100 as cash discount	
April 15	Withdrew from bank for office use	1,600
April 16	Paid wages ₹ 600 and rent ₹ 1,000	
April 19	Paid M/s. Mohan & Co. By cheque, cash discount allowed by him ₹ 200	4,800
April 23	Received a cheque from Subhash for sale of old goods	1,600
April 25	Paid M/s. Agarwalla cash ₹ 1500 and ₹ 720 by a cheque, received cash discount ₹ 50	
	Manish, a customer, deposited into bank	
April 26	Withdrew from bank for personal use	1,200
April 29	Bank charged commission	400
April 30	Withdrew from bank for paying income tax	200
April 30		1,000

Question 8. Prepare Three-column Cash Book from the following transactions:

1.4.19. Cash in Hand Rs 1,200; Overdraft at bank Rs 15,000.
April 3. Capital introduced Rs 20,000 out of which Rs 16,000 is by cheque and is deposited in the bank.
April 4. Purchased goods from Shyam Traders amounting to Rs 3,000 and they allowed trade discount Rs 200. The amount was paid by cheque.
April 4. Goods purchased for cash ₹ 4,000.
April 5. Sold goods to Mohan on credit ₹ 5,000.
April 6. Received cheque from Rakesh ₹ 2,450. Allowed him discount ₹ 50.
April 10. Cheque received from Rakesh deposited into bank.
April 11. Settled the account of Tej Printers Rs 750 by paying cash ₹ 680.
April 12. Cash received from Mohan Rs 4,750 in full settlement of his account of ₹ 5,000.
April 16. An amount of ₹ 1,000 due from Gupta Brothers written off as bad debts in the previous year, now recovered.
April 17. Received from Murli on behalf of Manohar ₹ 200.
April 19. Received a cheque for ₹ 800 from Mukesh, which was endorsed to Nitin on 24th April.
April 20. Sale of old furniture, payment received in cash for ₹ 720.
April 25. Cashed a cheque for ₹ 3,000.
April 25 Drew from bank for household expenses ₹ 1,000 and for income tax ₹ 500.

April 28 Surendra who owed ₹ 400 became bankrupt and paid 60 paise in a rupee.
April 28 Received repayment of a loan ₹ 3,000 and deposited out of it ₹ 2,500 into the bank.
April 30 Interest debited by bank Rs 375.
April 30.Deposited with the bank the entire balance after retaining Rs 2,000 at office.

Question:**9**. From the following particulars, prepare a Cash Book with suitable column:

2019		₹
March 1	Cash in Hand	8,500
	Bank balance with State Bank of India (SBI)	25,000
	Overdraft with Punjab National Bank (PNB)	17,500
March 3	Cash sales	7,000
March 5	Paid salary to staff by cheque on SBI	10,000
March 8	Cheque received from Anil deposited with PNB, cash discount allowed ₹ 200	9,000
March 10	Cash deposited into SBI	5,000
March 12	Amount transferred from SBI to PNB by cheque	3,000
March 15	Cash withdrew from SBI	8,000

PETTY CASH BOOK:- Petty Cash Book is the book which is used for the purpose of recording expenses involving small amounts. Besides petty expenses, receipts from main cash are recorded. Petty Cash Book is maintained by Petty Cashier and acts as the Petty Cash Account.

In a business a number of small payments, such as for conveyance, stationery, cartage, etc., have to be made. If all these payments are recorded in the Cash Book, it will become voluminous. Therefore, it is usual for firms to appoint a person as 'Petty Cashier' and to entrust the task of making small payments.

Recording of Petty Cash:- Petty cash given to the Petty Cashier for small payments is recorded on the credit side of the Cash Book as 'By Petty Cash Account' and is posted to the debit side of the Petty Cash Account in the Ledger.

SYSTEM OF PETTY CASH:- Petty Cash Book may be maintained by ordinary system or by imprest system. In case of Ordinary System of Petty Cash, Petty Cashier is given appropriate amount of cash and after spending the whole of that amount, he submits the account to the Head Cashier.

Imprest System of Petty Cash :- Under this system, an estimate is made of amount required for petty expenses for a period (say for a week, a fortnight or a month). The amount so ascertained is given to the Petty Cashier in the beginning of a period. The amount paid by him during the period. Thus, he will again have the fixed amount in the beginning of the new period reimbursed. This amount is called imprest money. This system of paying advance in the beginning and reimbursing the amount spent from time to time is called **imprest system.**

Advantages of Imprest System of Petty Cash

(i) **Control Over Mistakes**: The Petty Cash Book is checked by the cashier at regular intervals so that a mistake, if committed, is soon rectified.
(ii) **Control Over Petty Expenses**: Petty expenses are kept within the limits of imprest since the petty cashier can never spend more than the available petty cash.
(iii) **Control Over Fraud**: Under this system defalcation of cash can be minimised since the Petty Cashier is not allowed to draw cash as and when he desires.

Types of Petty Cash Books:- Following are the two types of Petty Cash Books:
1. Simple Petty Cash Book **2**. Analytical Petty Cash Book.

1. Simple Petty Cash Book: A Simple Petty Cash Book is identical with a Cash Book. Any cash which the Petty Cashier receives is recorded on the left hand side cash column (debit or receipts column) and any cash which he pays out is recorded on the right hand side (credit or payments column). The date and particulars of every transaction is written in the same date and particulars column. A specimen form of a Simple Petty Cash Book is given below:

SIMPLE PETTY CASH BOOK

Amount Received	Cash Book Folio	Date	Particulars	Voucher No.	Amount Paid ₹
Amount Received	…….	……	Heads of Expenses ……	…….. ……	…….. ……..

Question.10. From the following information, Prepare Simple Petty Cash Book for the 1st week of April, 2019:

Date	Particulars	₹
2019		
April 1	Received ₹ 4,000 from Chief Cashier for Petty Cash	
April 2	Bought postage stamps	200
April 4	Paid bus fare	120
April 5	Purchased stationery for office use	1,000
April 6	Paid for milk and sugar for office tea	600
April 7	Paid to window cleaner	80

Question 11. From the following particulars, prepare a Petty Cash Book for the month of April, 2019:

Date	Particulars	₹
2019		
April 1	Drew for Petty Cash	2,000
April 3	Paid for Postage	300
April 5	Paid for telephone	40
April 8	Paid for cartage	140
April 9	Paid for postage	200
April 12	Paid for sundries	100
April 27	Paid for taxi fare	240

If the imprest amount is Rs 2,000, show what amount the Petty Cashier would be entitled to draw in the beginning of the next month.

2. Analytical Petty Cash Book: An Analytical Petty Cash Book has two sides; left hand side is used for recording receipts of cash (which will be only from the main cashier) and right hand side, which is used for recording payments. In the Analytical Petty Cash Book, a separate column is provided for recording a particular item of expenditure, i.e., postage, stationery, travelling, advertisement, etc. A column is usually provided for 'sundries' to record infrequent payments. When petty expense is recorded on the right hand side total payment column, same amount is also recorded in the appropriate expense column. At the end of a particular period, analysis (expenses) column are added and posted to the debit side of the respective accounts.

In an Analytical Petty Cash Book, petty expenses are classified into different heads of expenses. Each head of expense can be conveniently transferred to appropriate account head in the ledger. Thus, posting from Petty Cash Book becomes easy. While maintaining a Petty Cash Book, following points should be noted:

(i) The amount fixed for petty cash should be sufficient for the likely small payments for a relatively short period, say, for a week, a fortnight or a month.
(ii) Reimbursement should be made only when the Petty Cashier prepares a statement showing total payments supported by vouchers, i.e., documentary evidence and should be limited to the amount of actual disbursements.
(iii) The vouchers should be filed in order.
(iv) No payment should be made without proper authorisation.
(v) Petty Cashier should be allowed to make payment of expenses up to a specified limit. Beyond which, payment should be made by the main cashier.
(vi) The Petty Cashier should be allowed to receive only the reimbursement.

Balancing the Petty Cash Book:- A Petty Cash Book is balanced at the end of the month or a specified period. The columns for payments and expenses are totaled and the total equals the total in the `Total Payment Column'.

Thereafter, the Petty Cash Book is balanced. The method of balancing the Petty Cash Book is the same as that of a Simple Cash Book.

DIFFERENCE BETWEEN SIMPLE AND ANALYTICAL PETTY CASH BOOK

Simple Petty Cash Book	Analytical Petty Cash Book
1. Separate record of each kind of petty expenses is not maintained.	The analysis columns are used for each commonly occurring item of expenses such as stationery, postage and travelling, etc.
2. It is written in the same manner as Cash Book is written. The pages are divided down the centre.	The pages are not divided down the centre, major space is provided for expense side having separate columns for expenses incurred regularly.
3. At the end of the period, total expenses under different heads cannot be determined easily.	At the end of the period, expenses under different heads can be determined easily.

Question: 12. Prepare an Analytical Petty Cash Book on the Imprest System from the following:

2019		₹
Jan. 1	Received 10,000 for Petty Cash	50
Jan. 2	Paid bus fare	250
Jan. 2	Paid cartage	500
Jan. 3	Paid to postage and telegrams	600
Jan. 3	Paid wages for casual labourers	400
Jan. 4	Paid for stationery	200
Jan. 4	Paid auto charges	1,500
Jan. 5	Paid for repairs to chairs	100
Jan. 5	Paid Bus fare	400
Jan. 5	Paid Cartage	700
Jan. 6	Paid for Postage and telegrams	300
Jan. 6	Paid for Convenyence charges	300
Jan. 6	Paid Cartage	300
Jan. 6	Paid for Stationery	200
Jan. 6	Paid for Refreshment to customers	500

SPECIAL PURPOSE BOOK –SUBSIDIARY BOOKS

PURCHASES BOOK OR PURCHASES JOURNAL: Purchases Books is a subsidiary book in which credit purchases of goods, i.e., goods in which the firm deals or uses for manufacturing goods are recorded. Thus, cash purchases of goods and non-goods like fixed assets are not recorded in Purchases Book. The entries in the Purchases Book are recorded on the basis **of Invoices received from the suppliers** with the amount net of trade discount plus GST (CGST and SGST or IGST) payable. **Ruling of Purchases Book or Purchases Journal:** The ruling of a Purchases Book or Purchases Journal is as follows:

PURCHASES BOOK OR PURCHASES JOURNAL

Date (1)	Particulars (2)	Invoice (3)	L.F.	Details (4)	Cost ₹ (5)	Input CGST (6)	Input SGST (7)	Input IGST (8)	Freight Cartage, Etc. (₹)(9)	Total ₹ (10)

The Purchases Book has eleven columns:

1. **Date**: The date of transaction is written.

2. **Particulars**: The name of the seller of goods, name of the articles and quantities purchased are written.

3. **Invoice No**.: Invoice number of the goods purchased is written.

4. **Ledger Folio (L.F.):** When the Purchases Book is posted to the ledger, the page number of the ledger is written.

5. **Details**: The amount in respect of each article is written in this column. If trade discount is allowed by the seller, it is deducted from the gross amount. Thereafter, GST (IGST or CGST and SGST) is levied.

6. **Cost**: Cost of goods purchased, i.e., excluding GST (IGST or CGST and SGST) payable and expenses payable and expenses payable, if any.

7. **Input CGST**. The amount of CGST payable on intra-state (i.e., within the state) purchases is written.

8. **Input SGST**: The amount of SGST payable on intra-state (i.e., within the state) purchases is written. **9**. **Input IGST**: The amount of IGST payable on inter-state (i.e., outside the state) purchases is written.

10. **Expenses**: The expenses e.g. freight,cartage or packing material, etc. payable to the seller is written.

11. Total Payable: The amount of invoice including GST (IGST or CGST and SGST) and expenses payable is written. At the end of a specified period (a week, a fortnight or a month) the Purchases Book is totalled. This total is posted to the Purchases Account.

Features of Purchases Book or Purchases Journal :

1. Credit purchases of goods traded in or material used for manufacture are recorded in the Purchases Book. Credit purchases of items not dealt in, such as office furniture or computers for office use, are not recorded in the Purchases Book.
2. Cash purchases are not recorded in the Purchases Book since they are recorded in Cash Book.
3. The entries in the Purchases Book are made on the basis of invoices received from the seller of goods with the net amount after trade discount.

Invoice: it is a document prepared by seller and sent to the customer. It shows the goods sold, with description, quantities, prices and trade discount along with GST (IGST or CGST and SGST) and expenses payable.

Utilities of Purchases Book

1. It reduces the volume of work required to pass Journal entry for each credit purchase.
2. Ledger posting becomes easier since all the credit purchases are recorded in a single book.
3. It is possible to have a periodic total of credit purchases of goods.
4. It becomes easier to check the price charged and other calculations.

Question: 13 (**Without GST**). From the following information of M/s. Narain & Co., Delhi, prepare the Purchases Book for the month of February, 2019:

2019 February 1. Purchased from M/s. Brown & Co. on credit:

5 gross pencils @ Rs 100 per gross

1 gross registers @ Rs 200 per dozen

Less: Trade Discount @ 10%

February 2. Purchased for cash from the Stationery Mart:

10 gross exercise books @ Rs 60 per dozen

February 3. Purchased computer printer for office use from M/s. Office Goods Co. on credit for Rs 4,000

February 4. Purchased on credit from The Paper Co.

5 reams of white paper @ Rs 100 per ream

10 reams of ruled paper @ 65 per ream

Less: Trade Discount @ 10%

February 5. Purchased 1 dozen ink-pots @ Rs 10 each from M/s. Verma Bros., Delhi on credit.

Question : 14 (With GST). From the following information of M/s. Narain & Co., Delhi, prepare the Purchases Book for the month of February, 2019:

2019 February 1. Purchased from M/s. Brown & Co., Kolkata on credit:

5 gross pencils @ 1,200 per gross

2 dozen registers @ 500 per dozen

Less: Trade Discount @ 10%

February 2 Purchased for cash from the Stationery Mart:

10 dozen exercise books @ 300 per dozen

February 3 Purchased computer printer for office use from M/s. Office Goods Co. on credit for 20,000.

February 4 Purchased on credit from The Paper Co., Delhi:

8 reams of white paper @ 500 per ream

10 reams of ruled paper @ 600 per ream

Less: Trade Discount @ 10%

February 5 Purchased 80 Reynolds Pens @ 5 each from M/s. Verma Bros., Delhi on credit

Note: CGST and SGST is levied @ 2.5% each and IGST is levied @ 5%.

Difference between Purchases Book and Purchases Account

Basis	Purchases Book	Purchases Account
1. Part	It is part of Journal.	It is part of Ledger.
2. Format	Like ledger account, it does not have debit and credit columns.	It has debit and credit columns.
3. Contents	Only credit purchases of goods dealt in or consumed for production are recorded.	Credit as well as cash purchases of goods dealt in or consumed for production are recorded.
4. Amount	Total of Purchases Book is posted to the Purchases Account.	Balance in the account is transferred to the Trading Account.

SALES BOOK OR SALES JOURNAL:- Sales Book or Sales Journal is a Subsidiary Book or special Journal in which credit sales of goods dealt in by the firm are recorded. Cash sales are recorded in the Cash Book and not in the Sales Book. Also, credit sales of items other than goods dealt in by the firm (e.g., sale of assets) are not recorded in the Sales Book, they are recorded in Journal Proper. Entries in the Sales Book are on the basis of invoices issued to the customers with the net amount after trade discount and charging GST.

Features of Sales Book:

1. Credit sales of goods dealt in are recorded in the Sales Book.

2. Credit sales of items other than goods traded in or sale of finished goods by the firm (e.g., sale of assets) are not recorded in the Sales Book, they are recorded in Journal Proper.

3. Cash sales are not recorded in the Sales Book since these are recorded in Cash Book.

4. Entries are recorded on the basis of invoices.

Ruling of Sales Book or Sales Journal : The ruling of Sales Book is shown below:

SALES BOOK OR SALES JOURNAL

Date (1)	Particulars (2)	Invoice (3)	L.F. (4)	Details (5)	Sale value ₹ (6)	Output CGST (7)	Output SGST (8)	Output IGST (9)	Freight Cartage, Etc. (₹) (10)	Total ₹ (11)

Entries in the Sales Book are recorded in the same manner as in the Purchases Book. For example, the particulars column will record the name of the customers to whom goods have been sold on credit. Entries in the Sales Book are written as follows:

1. **Date**: The date of transaction is written.

2. **Particulars**: The name of the purchaser of goods is written along with the description of goods and a quantity is written.

3. **Invoice No**.: Invoice number of goods sold is written.

4. **Ledger Folio** (L.F.): At the time of entries being posted into Ledger Accounts, the page number of the ledger is written.

5. **Details**: The amount in respect of each article is written. If trade discount is allowed to the purchaser of goods, it is deducted from the gross amount. Thereafter, GST (IGST or CGST and SGST) is charged

6. **Sales Value**: The value of sales of the goods is written in this column.

7. Output CGST. The amount of CGST charged on intra-state (i.e., within the state) sales is written.

8. Output SGST. The amount of SGST charged on intra-state (i.e., within the state) sales is written.

9. Output IGST. The amount of IGST charged on inter-state (Le., outside the state) sales is written. **10. Expenses**: The expenses towards freight, cartage and/or packing material, etc., charged from the customer are written.

11. Total: The amount of invoice including GST (IGST or CGST and SGST) charged and expenses is written.

Difference between Sales Book and Sales Account

Basic	Sales Book	Sales Account
1. Part	It is part of Journal Book.	It is part of Ledger.
2. Format	Like a ledger account, it does not have debit and credit columns.	It has debit and credit columns.
3. Contents	Only credit sales of goods are recorded.	Credit as well as cash sales of goods are recorded.
4. Amount	Total amount of Sales Book is posted to the Sales Account periodically.	Balance in the account is transferred to the Trading Account.

Utilities of Sales Book

1. It reduces the volume of work required to pass Journal entry for each credit sale.
2. Ledger posting becomes easier since all credit sales are recorded in a single book.
3. It becomes easier to check whether the prices charged are according to the catalogue or not.
4. It is possible to have a periodic total of credit sale of goods.

Question:**15**.(**Without GST**). Record the following transactions of Kishore & Sons in their Sales Book:

April 3. Sold to M/s. Gupta & Verma, Delhi on credit:
30 shirts @ 150 each
20 trousers @ 300 each
Less : Trade Discount @ 10%
April 10. Sold old furniture to M/s. Sehgal & Co., Delhi on credit 800

April 20. Sold 50 shirts on credit to M/s. Jain & Sons @ 150 each

April 23. Sold on credit to M/s. Mathur & Jain, Kolkata

100 shirts @ Rs 175 each

10 overcoats @ 500 each

Less: Trade Discount @ 10%

Question 16: (**With GST**). From the following transactions of M/s. Ridhima Sales, patna, prepare Sales Book:

1.3.2019. Sold to M/s. Gayatri Tea, Assam, vide Invoice No. 2005, 3 chests of tea for ₹ 5,000 per chest less Trade discount @ 5%, and IGST is charged @ 12%.

March 4 Sold to M/s. Mohan & Sons, Kolkata vide Invoice No. 2006, 20 kg Amul Butter @ ₹ 250 per kg less Trade discount @ 5% and charged CGST and SGST @ 6% each.

March 5 Sold to M/s. Garry Sons, Delhi vide Invoice No. 2007, 20 kg Assam Tea @ ₹ 600 per kg less Trade discount @ 5%, charged IGST @ 12%. Freight and packing charges were separately charged in the invoice at ₹ 1,600. Also, show the Journal entry for the entries recorded in the Sales Book.

PURCHASES RETURN BOOK OR RETURNS OUTWARD BOOK:-Purchases Return Book or Returns Outward Book is a subsidiary book maintained to record the goods or materials returned to the sellers of goods that were purchased on credit. Neither the return of goods purchased on cash nor the returns of any asset other than merchandise are recorded in this book. This book is maintained if the return of goods is frequent otherwise it can be recorded in the Journal. Goods may be returned because of any of the following reasons:

1. Goods are not as per sample.
2. Goods are defective.
3. Goods are not as per order.

4. Goods have been delivered late and the customer has refused to accept them.
In all these cases, the purchaser prepares a **'Debit Note'** and sends it to the supplier. Debit Note is a document notifying the person that a debit has been made to his account. The reason for the debit is also stated in the Debit Note. A Debit Note is prepared when the goods are returned and on its basis an entry is recorded in the Purchases Return Book. GST (IGST or CGST and SGST) was paid at the time of purchase of goods. Thus, in the Purchases Return Book or Returns Outward Book, Input IGST or Input CGST and Input SGST are also reversed.

Question :17. Enter the following transactions in the Purchases Return Book of Shri Govind:

15.4.2019 Returned goods to Ram Krishan & Sons for Rs 2,000, Trade Discount 10%. CGST and SGST was paid @ 6% each.

April 20 Returned goods to Gopalsons for Rs 5,000, as the goods were not as per sample. IGST was paid @ 12% at the time of purchase.

Solution: PURCHASES RETURN BOOK OR RETURNS OUTWARD BOOK OF SHRI GOVIND

Date	Particulars	Debit Note No.	L. F.	Details ₹	Cost ₹	Input CGST ₹	Input SGST ₹	Input IGST ₹	Total ₹
2018 April 15	Ram Krishan & Sons Less: Trade Discount 10% Add: CGST @ 6% SGST @ 6%			2,000 200 1,800 108 108					
April 20	Gopalsons Add: IGST @ 12%			**2016** 5,000 600 **5,600**	1,800 5,000	108	108	600	2,016 5,600
April 30					6,800	108	108	600	7,616

Question:18. Records the following in Purchase Return Book and post them in ledger book:

10.12.2019 Returned 2 washing machines purchased from M/s. Manohar Electronics at the list price of ₹ 7,000 per machine, less Trade Discount 20%,CGST and SGST was paid @ 6% each.

Dec. 24. Returned 6 Pendrives to M/s. Sonika Electronics purchased @ ₹ 1,000 each plus IGST @ 12%.

SALES RETURN BOOK OR RETURNS INWARD BOOK

Sales Return Book or Returns Inward Book is a subsidiary book maintained to record the goods or materials returned by the purchaser that had been sold on credit. This book is maintained if the return of goods is frequent otherwise it can be recorded in the Journal.

A Credit Note is prepared when goods are returned by the purchaser and on its basis entry is recorded in the Sales Return Book, i.e., value of sales and GST (IGST or CGST and SGST) charged.

Credit Note is a document evidencing that a credit entry has been made to the account of the debtor.

Credit Note is prepared in duplicate, original copy is sent to the customer while one copy is retained for record. A specimen of a Credit Note is as follows:

Question: 19. Prepare Sales Return Book in the Books of Lal & Co., Delhi from the following transactions:

6.4.2019 Goods returned by Ganga Prashad & Co., Delhi:

2 Table Fans @ 1,000 each

Less: Trade Discount 15%

Add: CGST and SGST @ 6% each

April 12. Prabhat Electricals, Agra returned defective Room Cooler 4,250 plus IGST @ 12%.

Solution: **SALES RETURN BOOK**

Date	Particulars	Credit Note No.	L. F.	Details ₹	Value ₹	Output CGST ₹	Output SGST ₹	Output IGST ₹	Total ₹
2018 April 6	**Ganga Prashad & Co., Delhi** 2 Table fans @ ₹1,000 each Less: Trade Discount @ 15% Add: CGST @ 6% SGST @ 6%			2,000 300 1,700 102 102 **1,904**					
April 12	**Prabhat Electricals, Agra** 1 Room Cooler Add: IGST @ 12%			4,250 510	1,700	102	102		1,904
April 30				4,760	4,250			510	4,760
					5,950	102	102	510	6,664

Question:**20**. Records the following transactions of Abhay & Co., Kolkata in the Return Inward Book and post these transactions into the Ledger accounts:

1.1.2019 Ramesh & Co., Guwahati returned 500 pens sold @ Rs 50 per unit
Less: Trade Discount @ 10%
Add: IGST @ 12%

January 25 Naresh & Co., Kolkata returned 300 pens sold @ ₹ 55 per units.

Solution:

Date	Particulars	Credit Note No.	L. F	Details ₹	Value ₹	Output CGST ₹	Output SGST ₹	Output IGST ₹	Total ₹
2018 Jan. 1	Ramesh & Co. Guwahati 500 Pens @ ₹ 50 each Less:Trade Disc 10% Add: IGST @ 12%			25,000 2,500 22,500 2,700 25,200	22,500			2,700	25,200
Jan. 25	**Naresh&Co. Kolkata** 300 Pens @ ₹ 55 each Add: CGST @ 6% SGST @ 6%			16,500 990 990 18,480	16,500	990	990		18,480
Jan. 31					39,000	990	990	2,700	43,680

Question: 21. Record the following transactions of Harry Marketing, Amritsar into proper subsidiary books, close the subsidiary books on 31st January and post them into Ledger Accounts:

1.1.2019 Purchased Readymade Clothes from Mahendra of Delhi of the list price of 40,000 less 10% Trade Discount plus IGST @ 12%.

January 5 Sold Readymade Clothes to Mohan, Amritsar for 10,000 less Trade Disc. 10%, charged CGST and SGST @ 6% each.

January 6 Returned goods to Mahendra of the list price of 5,000.

January 7 Shyam Singh, Delhi sold Readymade (Men) Clothes to us for 30,000 plus IGST @ 12%.

January 8 Sold Readymade Clothes (Men) to Harish, Amritsar for 12,000. Charged CGST and SGST @ 6% each.

January 19 Sold Readymade Clothes to Mohan, Amritsar for Rs 6,000. Trade Discount 10% plus CGST and SGST @ 6% each.

January 27 Sold Readymade Clothes to Mahesh, Varanasi for Rs 8,000. Charged IGST @ 12%.

Distinction between Special Journal and General Journal

Basis	Special Journal (Subsidiary Books)	General Journal (Journal Proper)
1. Nature of Transactions Recorded	It records transactions of similar nature, e.g., Purchases Book records only credit purchases.	It does not record transactions of a similar nature.
2. Format	It is in the form of a statement.	It is in the form of a Journal.
3. Need	A business unit may not have a Special Journal.	A business unit must have a Journal Proper.
4. Posting	Each transaction is not recorded in the Ledger separately.	Each transaction is recorded in the Ledger separately.
5. Rectification	A mistake in the Journal Proper is not rectified by a Special Journal.	A mistake in Special Journal is rectified by the Journal Proper.

Question :22(PRACTICE QUESTION). Enter the following transactions of COC, Noida in the Subsidiary Books and post them into the Ledger and prepare Trial Balance:

2019. April 1. Raj started a business with ₹ 6,00,000
April 4. Furniture purchased from Modern Furniture for ₹ 50,000 plus CGST and SGST @ 6% each
April 5. Purchased goods for ₹ 1,00,000 plus CGST and SGST @ 6% each in cash.
April 8. Purchased goods from K.G. Khosla & Co., Faridabad, Haryana for ₹ 1,50,000, trade discount 20%, plus IGST @ 12%.
April 9. Opened a bank account by depositing ₹ 1,50,000
April 10. Sold goods in cash of ₹ 2,00,000 and charged CGST and SGST @ 6% each
April 10. Purchased stationery from R.S. Mart for ₹ 5,000 plus CGST and SGST @ 6% each
April 11. Sold to Sanjay Kumar, Delhi goods of ₹ 1,00,000, charged IGST @ 12%
April 14. Goods returned by Sanjay Kumar, Delhi of sale value ₹ 20,000
April 15. Payment to K.G. Khosla & Co. by cheque ₹ 50,000
April 20. Goods purchased on credit from Shiv Dayal & Co., Delhi for ₹ 1,00,000 plus IGST @ 12%
April 25. Goods returned to Shiv Dayal & Co., Delhi ₹ 10,000
April 28. Paid electricity bill ₹ 1,000
April 29 Cash sales ₹ 90,000 plus CGST and SGST @ 6% each
April 30. Withdrew for private use from bank ₹ 10,000.

Question.23: Enter the following transactions in a Simple Cash Book:

2019	₹	2019	₹
Jan. 1 Reema started business with cash	1,00,000	Jan. 7 Paid Rent	4,000
Jan. 2 Opened a bank account and deposited	50,000	Jan. 8 Sold Goods	10,000
Jan. 3 Purchased goods for cash	20,000	Jan. 10 Withdrew cash from bank	7,000
Jan. 3 Sold goods to Ram on credit	5,000	Jan. 27 Purchased Furniture	15,000
Jan. 5 Received from Ram	3,000	Jan. 31 Paid Salaries	5,000

Solution: **CASH BOOK**

Date	Particulars	V.No.	L.F	₹	Date	Particulars	V.No.	L.F	₹
2014					2014				
Jan. 1	To Capital A/C			1,00,000	Jan. 2	By Bank A/C			50,000
Jan. 5	To Ram			3,000	Jan. 3	By Purchases a/c			20,000
Jan. 8	To Sales A/C			10,000	Jan. 7	By Rent A/C			4,000
Jan. 10	To Bank A/C			7,000	Jan. 27	By Furniture A/C			15,000
					Jan.31	By Salaries A,C			5,000
					Jan. 31	By Balance c/d			26,000
				1,20,000					1,20,000
Feb. 1	To Balance b/d			26,000					

Question 24. Prepare Cash Book with Bank Column of **COC** from the following transactions:

2019			Rs
April	1	Cash in Hand	2,20,000
		Cash at Bank (Overdraft)	60,000
April	3	Deposited in Bank	80,000
April	4	Goods purchased for Rs 34,000 plus CGST and SGST @ 6% each and issued a cheque for the same	
April	7	Cash Purchases plus CGST and SGST @ 6% each	16,000
April	8	Paid Commission by cheque including CGST and SGST @ 6% each	13,440
April	9	Withdrew from bank for private use	2,500
April	12	Received from Ved in full settlement of his account Rs 6,000, half of the amount was deposited into bank on the same day	
April	16	Interest collected by Bank	14,000
April	20	Cash Sales including CGST and SGST @ 6% each	47,040
April	22	Salaries Paid	40,000
April	22	Goods sold to Sona & Co., Kolkata plus IGST @ 12%	36,000
April	23	Received cheque from Sona & Co. after discount of Rs. 800	39,520
April	27	Deposited the cheque received from Sona & Co. into Bank	

Question 25. Prepare Two-column Cash Book of Tarun, Kanpur from the following Transactions:

April	1	Cash in Hand Rs 1,200; Overdraft bank Rs 15,000.
April	3	Capital introduced Rs 20,000 out of which Rs 16,000 is by cheque and is deposited in the bank.
April	4	Purchased goods from Shyam Traders, Lucknow for Rs 3,000 plus CGST and SGST @ 6% each and they allowed trade discount Rs 200. The amount was paid by cheque.
April	4	Goods purchased for cash Rs 4,000 plus CGST and SGST @ 6% each.
April	5	Sold goods to Mohan on credit Rs 5,000 plus CGST and SGST @ 6% each.
April	6	Received cheque from Rakesh Rs 2,450. Allowed him discount Rs 50.
April	10	Cheque received from Rakesh deposited into bank.
April	11	Settled the account of Tej Printers Rs 750 by paying cash Rs 680.
April	12	Cash received from Mohan Rs 4,750 in full settlement of his account of Rs 5,000.
April	16	An amount of Rs 1,000 due from Gupta Brothers written off as bad debts in the Previous year, now received.
April	17	Received from Murli on behalf of Manohar Rs 200.
April	19	Received a cheque for Rs 800 from Mukesh, which was endorsed to Nitin.
April	20	Sale of old furniture for Rs 700 plus CGST and SGST @ 6% each, payment received in cash.
April	25	Withdrawn from bank Rs 3,000.
April	25	Drew from bank for household expenses Rs 1,000 and for income tax Rs 500.

April	28	Surendra who owed Rs 400 became bankrupt and paid 60 paise in a rupee.
April	28	Received repayment of a loan advanced to Ram Rs 3,000 and deposited out of it Rs 2,500 into the bank.
April	30	Interest debited by bank Rs 375.
April	30	Deposited with the bank the entire balance after retaining Rs 2,000 office.

Question 26. Prepare Cash Book from the following transactions of M/s. Advance Technology Zone, Mumbai for the month of April, 2019 and post them to the related Ledger Accounts:

Date	Particulars	Rs.
2019		
April 1	Cash in Hand	14,000
	Bank Over draft	13,200
April 4	Wages Paid	1,400
April 5	Cash sales plus CGST and SGST @ 6% each	17,000
April 7	Purchased Goods from Rahul, Kolkata for Rs 12,250 plus IGST @ 12% paid by cheque in full settlement on 8th April	13,500
April 9	Purchased furniture for cash plus CGST and SGST @6% each	10,000
April 10	Cash Paid to Rohit , Discount received Rs 100	5,000
April 11	Cheque issued to Rahul was dishonoured	
April 13	Cash Sales plus CGST and SGST @ 6 % each	4,500
April 16	Bank charged interest on overdraft	500
April 18	Deposited into Bank	7,000
April 20	Paid telephone bill by cheque including CGST and SGST @ 6% each	672
April 25	Sold goods for Rs 23,500 plus CGST and SGST @ 6% each to Vikas and received cheque in full settlement (Deposited same day), allowed him discount Rs 500	
	Paid rent plus CGST and SGST @ 6% each	
April 27	Drew cash for personal use	800
April 29	Paid Salary	1,000
April 30	Interest collected by bank	2,000
April 30		2,500

Question 27 : (With GST). From the following particulars, prepare a Petty Cash Book for the month of April, 2019;

Date	Particulars	Rs.
2019		
April 1	Drew for Petty Cash……	5,000
April 3	Paid for postage……	300
April 5	Paid telephone bill Rs 400 plus CGST and SGST @	
April 8	6% each	
April 9	Paid for cartage ……	140
April 12	Paid for postage…	200
April 27	Paid for sundries…	100
	Paid for stationery Rs 300 plus CGST and SGST @ 6 % each	

If the imprest amount is Rs 2,000, show what amount the Petty Cashier would be entitled to draw in the beginning of the next month.

Question 28. Prepare an Analytical Petty Cash Book on the Imprest system from the following.

2019		Rs.
Jan 1	Received Rs 10,000 for Petty Cash	
Jan 2	Paid Bus Fare……	50
Jan 2	Paid for cartage ……	250
Jan 3	Paid for postage……	500
Jan 3	Paid for wages for casual labourers……	600
Jan 4	Paid for stationery Rs 400 plus CGST & SGST@ 6% each	
Jan 4	Paid auto charges ……	200
Jan 5	Paid for repairs of chairs ……	1500
Jan 5	Paid Bus Fare……	100

Jan 5	Paid for cartage ……	400
Jan 6	Paid for postage……	700
Jan 6	Paid for conveyance charges ……	300
Jan 6	Paid Cartage……	300
Jan 6	Paid for Stationery Rs 200 plus CGST and SGST @ 6%	
Jan 6	each	
	Paid Refreshment to Customers	500
	……	

CHAPTER 2D. RECTIFICATION OF ERRORS

The term 'error' refers to **unintentional mistakes** in financial information, e.g. mathematical or clerical mistakes, oversight or misinterpretation of facts, or unintentional misapplication of accounting policies.

While recording transactions and events various errors may be committed unintentionally. When a journal entry contains an error, the entry can be erased or crossed out and corrected—if the error is discovered immediately. However, if the errors are detected after posting to ledger accounts, the correcting entries are made. The correcting entry is recorded in journal and posted to the general ledger exactly as regular entries are.

Example:

(i) A repair expenses was erroneously debited to Plant and machinery on November 25. The error is discovered on December 31:

Corrective Entry: 31st Dec. Repair Expenses A/c ———— Dr.

To Plant and Machinery A/c

The corrective entry shows a credit to plant and machinery to cancel of offset the erroneous debit to plant and machinery.

(ii) A collection on account was erroneously credited to sales on Jan.1 The error is discovered on Mach 26.

Corrective Entry: March 26 Sales Account Dr.

To sundry Debtors A/c

The debit to Sales in the correcting entry offset the incorrect credit to sales in the erroneous entry. The credit to Account Receivable in the correcting entry places the collected amount where it belongs.

Some errors are counter balanced:-- Accounting errors that are undetected can affect a variety of items, including revenues and expenses for a given period. Some errors are counterbalanced by offsetting errors in the ordinary accounting process in the "next period. Such errors misstate net income in both periods, but by the end of the second period the errors are counterbalance, and they affect the balance sheet of only first period, not the second period.

Example: A payment of Rs. 10,000 in March 2003 for Rent for the month April 2003. Instead of recording it as prepaid rent, the payment was recorded as Rent Expenses.

The effect of this recording error would be to:

i. overstate rent expenses for the year 2002-2003 and understate year-end assets by Rs. 10,000 for the first year end and
ii. Understate rent expense for the second year.

Errors that are not counterbalanced in the ordinary book-keeping process will keep subsequent balance sheets in error until specific correcting entries are made.

A Trial Balance is very good way of giving a clear indication of some mistakes that may be there. This will be shown immediately, if the totals of the two columns of the trial balance differ. Thus, trial balance is essential to ensure that mistakes do not remain unearthed. However, the agreement of trial balance do not show conclusively that no mistakes have remain undetected. Some errors will not be disclosed by the trial balance whereas some will be. An agreed trial balance, therefore, is only a reasonable proof of arithmetic accuracy of books

DIFFERENCE IN TRIAL BALANCE: ERRORS

Apart from error in totalling the two columns of trial balance, the following mistakes will be shown up by the trial balance , because then the trial balance will not agree:

(a) Mistake in transferring the balance of an account to Trial balance.
(b) Omitting to write the balance of an account in the trial balance.
© Mistake in balancing
(d) Making an entry on the wrong side.
(e) A mistake in the casting of subsidiary books.
(f) Omitting to post the discount columns of the cash book.

In spite of the agreement of the trial balance, the following types of error will not be disclosed because they do not upset the equation: DEBIT = CREDIT.

Omitting to record a transaction entirely in subsidiary books.

A wrong entry in the subsidiary books.

1. Posting an entry on the correct side but in the wrong account head
2. An error of principle- where by an assets is transferred as an expense or liability is treated as an income.
3. Compensating errors.

➢ **CLASSIFICATION OF ERRORS(most. imp)**

a)	Error of omission	➢ A transaction entirely omitted to record in original books or partially omitted while posting.
b)	Error of commission	➢ Wrong posting either of amount or on the wrong side, or in the wrong account.
c)	Error of principle	➢ Wrong classification of expenditure or receipt
d)	Compensating error	➢ One error compensated by the error i.e. an error which cancels themselves out.

STEPS TO LOCATE A MISTAKES:-- The following steps are suggested to find out errors:

1. Total the debit and credit columns of trial balance again
2. See the balances of all accounts, including the cash and bank balances, have been written in the trial balance.
3. Find out the difference in die trial balance. Look for such accounts as show this amount it is possible that the balance of the particular account has been omitted from the trial balance. Account showing equal to half the difference should also be checked; the amount may have been written on the wrong side of the trial balance.
4. See that there are no mistakes in the balancing of the various accounts.
5. Recheck the totals of the subsidiary books, especially if the mistake is of 1,10,100 and so on.
6. If the difference is a large one, compare the figures with the trial balance of the corresponding date of the previous year, Any account showing rather large difference over the figure HI she corresponding trial balance of the previous year, should be rechecked.
7. Posting of all amounts corresponding to the differences or half the difference should be checked
8. If the differences are still not traced posting of all accounts will have to be checked

RECTIFICATION OF ERRORS:-- Correction of errors, if located after some time, is always made by a proper journal entry and not by simply crossing the wrong amount and inserting the right one. A complete explanation for the correction made should be given so that no difficulty is experienced later when accounts are checked.

From the point of view of rectification, errors are of two type:—

e) Error that affect the trial balance; and
f) Errors that do not affect the trial balance.

Correction of such error that affect the trial balance would not be through journal entry, only *corrective amount placed on the proper side* will suffice. Some of the examples of such types of errors are as follows :—

1) An amount of Rs 150 for a credit sale to Mr. *X* correctly entered in the sales book, has been debited to his account as RS 105. In this case the amount has been correctly entered in the sales book and. therefore, the sales account has been correctly posted. The mistakes lies only in the account of Mr. X . who should have been debit with Rs. 150 and has been debited . instead , with RS 105. The correcting entry is to .—

Mr. X Account Dr Rs. 45.00

To mistakes in posting on —— Rs.45.00

(Being amount wrongly posted in Mr. X A/C for RS 105 instead of Rs. 150)

2) An amount of Rs. 150 for a credit sale to D.K. Kapoor. correctly entered in sales book. has be credited to him. in this case also the sales account has been correctly posted and the mistakes lies only in the

account of D. K. Kapoor, who has been credited instead of debited.

The correcting entry is to debit him with Rs. 300, Rs. 150 to remove the wrong credit and Rs. 150 for the rightful debit. The caption will be “To mistake in Posting on”

SUSPENSE ACCOUNT: If the difference in the trial balance is not quickly located, it is usual to put the difference to suspense account in order to make the trial balance balanced.

- If the debit side is short, the suspense account will be debited saying “To differences in trial balance” and
- Similarly, the suspense account will be credited if the credit side is short.

- The difference in the trial balance is due to type of mistakes which affect only one account such as wrong posting of an account, mistake in totalling a subsidiary book etc. Such types of mistakes are only reflected in suspense account.

When the difference in trial balance is put to suspense account the account to be corrected will be debited or credited as the case may be and the journal entry will be completed by crediting or debiting the suspense account. When all the mistakes have been corrected, the suspense account will show no balance.

CORRECTION IN THE NEXT TRADING PERIOD:-- Since it is necessary to ascertain the profit or loss of each period separately, it would be necessary to rectify errors in such a way as not to affect the current year's expenses, losses or incomes. To take an example, if an error committed in 2001-2002 is rectified in 2002-2003 by debiting purchase account, it would mean that it would be treated as expenditure for 2002-2003. This would be wrong and (proper way is to leave the purchase account and all other nominal account for 2002-2003 unaffected *by* cm n 2001-2002.

For this purpose, a separate account, profit and loss adjustment account, should be opened and all debit and credit in respect of nominal accounts for errors committed in previous trading period should be passed through that account. The balance of this account is finally transferred to the capital account

Distinction between Error of Principal and Error of Omission (most imp.)

Errors of Principal	Errors of Omission
• This error does not affect Trial Balance, • This error is due to wrong classification of Capital and Revenue expenditure or personal and nominal account • This is not a clerical error. • This error affects profit of the business. • This error will affect value of asset or liability	• This error may affect Trial Balance • This error is due to complete omission of a transaction or partial omission • This is a error may or may not affect profit of the business. • This error may or may not affect value of assets or liability

QUESTION 1. Pass journal entries to rectify the following errors and prepare suspense account:

I. Rs. 1,080 received from Mohan was posted to the debit of his account.
II. Rs. 200 being purchases returns was posted to the debit of purchases account.
III. Rs. 400 received as discount was posted to the debit of discount account.
IV. Rs. 1,148 paid for repairs of motor car was debited to motor car account as Rs. 148.
V. Rs. 400 paid to Suresh was debited to Satish.

QUESTION 2. On 28th February,2017, the trial balance of X did not agree. X put the difference in a newly opened suspense account. Subsequently, the following errors were located:

i. The returns inward book for January,2017 had been cast Rs.1000 short.
ii. A purchase of Rs. 1,671 had been posted to the debit of the creditor's account as Rs. 1,617. The creditor is Panna and Co.
iii. A sale of Rs. 2,000 to Singh and Co. was credited to the account of the customer.
iv. A sale of Rs. 4,000 has been passed through the purchases book. The customer's account has, however, been correctly debited.
v. While carrying forward the total of sales book from one page to the next, the amount was written as Rs. 1,76,658 instead of Rs. 1,67,568.

Pass journal entries to rectify the above mentioned errors. Also prepare the suspense account assuming that all errors have been located.

QUESTION 3. A merchant while balancing his books of account finds that the trial balance shows excess debit of Rs. 1,700. Being required to prepare the final accounts, he places the difference to a newly opened suspense account which he carries forward. In the next accounting year, the following errors are discovered:

i. Goods bought from Narayan amounting to Rs. 5,000 had been posted to the credit of Narayan as Rs. 5,500.
ii. A discounted bill receivable for Rs. 20,000 was returned by the bank, as having been dishonored. The amount of the bill was credited to bank and debited to bills receivable account.
iii. An item of Rs. 1,000 entered in the sales return book was posted to the debit of Pandey who had returned the goods.

iv. Sundry items of furniture sold for Rs. 26,000 had been entered in the sales book. Ignore depreciation and profit or loss on the sale.

v. Discount amounting to Rs. 200 from a creditor had been duly entered in the creditor's account, but not posted to discount account.

Draft journal entries necessary for rectifying the abovementioned errors. Prepare the suspense account and show the ultimate effect of the errors on the last year's profit by preparing profit and loss adjustment account.

QUESTION 4. An accountant prepared a trial balance on 31st december,2017, which revealed a difference in the books of account. He put the difference in a newly opened suspense account. He detected the following errors:

i. The total of the returns outward book, Rs. 4,200 had not been posted in the ledger.

ii. A purchase of Rs. 3,500 for Y had not been entered in the purchases book. However, Y's account had been correctly credited with the amount.

iii. A sale of Rs. 3,900 to Z had been credited to his account as Rs. 2,900.

iv. Furniture sold for Rs. 5,400 had been entered as Rs. 4,500 in sales books.

v. Goods worth Rs. 500 taken by proprietor for personal use had not been recorded at all.

vi. Wages paid for on installation of machinery, Rs. 1,000 had been debited to wages account.

Pass journal entries to rectify the above mentioned errors and prepare suspense account assuming that all the errors have been located.

QUESTION 5. Pass journal entries to rectify the following errors assuming the existence of suspense account:

(i) Goods bought from Vijay amounting to Rs. 27,500 were posted to the credit of his account as Rs. 25,700.

(ii) Sales book was overcast by Rs. 10,000.

(iii) While carrying forward the total of one page of the purchases book to the next page, the amount of Rs. 64,750 was written as Rs. 61,750.

(iv) Purchases returns to Goenka Brothers worth Rs. 15,500 were not recorded in purchases returns book, but the account of Goenka Brothers was duly debited for the amount.

(v) Drawings of goods by proprietor costing Rs. 1,500 were not recorded in the books of account.

The suspense account had a debit balance of Rs. 1,600 prior to the above adjustments. Prepare the suspense account and comment on the same.

Answer : **Journal entries**

(i)	Suspense A/c Dr. To Vijay (Being goods brought from Vijay amounting to Rs. 27,500 was posted to credit of his account as Rs. 25,700)	1,800	 1,800
(ii)	Sales A/c Dr. To Suspense A/c (Being sales book was over cast by Rs. 10,000)	10,000	 10,000
(iii)	Purchases A/c Dr. To Suspense A/c (Being balance of purchases book carried forward as 61,750 instead of 64,750)	3,000	 3,000
(iv)	Suspense A/c Dr. To Purchases Return A/c (Being Purchases return to Goenka Brother worth Rs. 15,500 were not recorded in Purchase Return Book, now rectified)	15,500	 15,500
(v)	Drawings A/c Dr. To Purchases A/c (Being drawing of goods not recorded earlier, now rectified)	1,500	 1,500

Suspense A/c

Particulars	Amount	Particulars	Amount
To Balance B/d	1,600	By Sales A/c	10,000
To Vijay	1,800	By Purchases A/c	3,000
To Purchase Return A/c	15,500	By Balance c/d	5,900
	18,900		18,900
To Balance B/d	5,900		

QUESTION 6. Rectify the following errors and prepare the suspense account on the assumption that all the errors has been located and rectified:

(i) A Sum of Rs. 10,800 received from Mohan was posted to the debit of his account.
(ii) Rs. 2,000 being purchases returns were posted to the debit of purchases account.
(iii) Discount received Rs. 400 was posted to the debit of discount account.
(iv) Rs. 11,480 paid for repairs of motor car were debited to motor car account as Rs. 1,480.
(v) A sale for Rs. 23,500 to Sethi was entered in the sales book as Rs. 25,300.
(vi) While carrying forward the balance on one page in kalra's account, the amount of Rs. 2,500 was written on the credit side instead of the debit side.

Answer :

(i)	Suspense A/c Dr. To Mohan A/c (Being a sum of Rs. 10,800 was received from Mohan, posted to his debit, now rectified)	21,600	 21,600
(ii)	Suspense A/c Dr. To Purchase A/c To Purchase Return A/c (Being purchases return wrongly debited to Purchase A/c, now rectified)	4,000	 2,000 2,000
(iii)	Suspense A/c Dr. To Discount A/c (Being discount received was debited to discount A/c, now rectified)	800	 800
(iv)	Repairs A/c Dr. To Motor Car A/c To Suspense A/c (Being repairs to Motor car was debited to motor car A/c, now rectified)	11,480	 1,480 10,000
(v)	Sales A/c Dr. To Sethi A/c (Being sales of Rs. 23,500 to sethi entered in sales Book as Rs. 25,300, now rectified)	1,800	 1,800
(vi)	Kalara Dr. To Suspense A/c (Being debit balance of Rs. 25,00 in Kalra's A/c wrongly written on the credit side of the A/c now rectified	5,000	 5,000

Dr. Suspense A/c Cr.

Particulars	Amount	Particulars	Amount
To Mohan	21,600	By Difference in Trial Balance	11,400
To Purchase A/c	2,000	(Bal. Fig)	
To Purchase Return A/c	2,000	By Repairs A/c	10,000
To Discount A/c	8,00	By Kalara	5,000
To Return Outward A/c			
	26,400		26,400

QUESTION 7. On 28th February, 2017, the trial balance of Zahir did not agree. The proprietor put the difference in a newly opened suspense account. Subsequently, the following errors were located:

(i) The purchases book for January, 2017 has been cast Rs. 1,000 short.
(ii) A credit sale for Rs. 6,000 has been passed through the purchases book. The customer's account has, however, been correctly debited.
(iii) A credit purchase for Rs. 6,710 had been posted to the debit of the creditor's account as Rs. 6,170; Rajan being the concerned creditor.

Pass journal entries to rectify the above mentioned errors. Also prepare the suspense account assuming that there are no other errors.

Answer

1)	Purchase A/c To suspense A/c (being purchased book has cast short now rectified)	1000	 1000
2)	Suspense A/c To purchases To sales A/c (being a credit sales has been pass through the purchases book now rectified)	12000	 6000 6000
3)	Suspense Dr To Rajan (being credit purchase for Rs 6710 to Rajan's debit now rectified)	12880	 12880

Suspense A/c

Particulars	Amount	Particulars	Amount
To Purchases A/c	6000	By Differences in trial balances	238800
To Sales A/c	6000	By purchases	1000
To Rajan A/c	12800		
	24880		24880

QUESTION 8. A book –keeping finds that trial balances is out by excess debit of Rs 500. He puts the differences to a newly opened suspense account. Later on he detects the following errors :
1) Goods worth Rs 15000 purchased from Ravi but entered in the sales book .
2) Received a promissory note for Rs 25000 from Arun but entered in the bill payable book.
3)An item of Rs 3500 relating to prepaid rent accounted was omitted to be brought forward .
4) An item of Rs 2000 in respect of purchased returns to Roshan had been wrongly entered in the purchased book .
5) Rs 5000 paid to Hari against acceptances was debited to Harish
6) A bill was received for repairs of furniture for Rs 2500 . The amount was debited to furniture account .
Pass journal entries to rectify the above errors .

Answer :-

1)	Purchases A/c Sales A/c To Ravi (being goods purchased from Ravi entered in sales book now rectified)	15000 15000	 30000
2	Bill receivables A/c Bill payable A/c To Arun (being promissory note received from Arun entered in bills payable book now rectified)	25000 25000	 50000
3	Prepaid Rent A/c To Suspense A/c (being prepare rent accounted omitted to be brought forward now rectified)	3500	 3500
4	Suspense A/c To Purchase A/c To Purchase returns A/c (being Purchase returns to Roshan wrongly entered in purchase book mow rectified)	4000	 2000 2000
5)	Bills payable A/c To Harish (being cash paid to Hari against our acceptances debited to Harish now rectified)	5000	 5000
6)	Repairs A/c To Furniture A/c (being repairs to furniture debited to furniture A/c now rectified)	2500	 2500

QUESTION 9. On 31st March 2017 the trial balances of Kunal did not agree. To prepare the final accounted the proprietor put the differences in a newly opened suspense account. In the next accounting year the following errors were located :
1) Rs 18500 paid for the purchased of a machinery was charged to office expenses account .
2) Cash sales of Rs 3550 was posted as Rs 3505
3) Purchase return book was under cast by Rs 100.
Pass journal entries to rectify the above mentioned errors .

Answer :

Machine A/c To Offices expenses (being of machines charges to expenses accounted error now rectified)	18500	 18500
Suspense A/c To cash sales (being short cash sales , error now recorded and rectified)	45	 45
Suspense A/c To Purchases Return A/c (under cast of Purchases Return books error now rectified)	100	 100

QUESTION 10. On 31st March 2017 an accounted of a sole proprietorship concern could not agree his trial balances . He put the difference in a newly opened suspense accounted and closed the books of accounted for the year. In the subsequent accounting year the following error in the books for the year 2016-17 were located :
1) Rs 8000 paid for purchase of office furniture was posted to the purchase account.
2) The sales book was over casted by Rs 100.
3) Erections of machinery Rs 2750 had been debited to wages accounted as Rs 5250.
4) A cheque for 7330 was received from Rao after allowing him a discount of Rs 70 . It was endorsed in favour of Sen in full settlement of Rs 7500, The cheque was dishonoured but no entry for dishonour was passed in the books.
Pass journal entries for rectify the above mentioned errors. Also prepare the suspense account and Profit and loss adjustment assuming that all the errors have been located.

Answer :- Rectifying journal Entries

Furniture A/c To P& L Adjustment A/c	8000	 8000
P&L adjustment A/c To Suspense A/c	100	 100
Machinery A/c Suspense A/c To Profit & Loss Adjustment A/c	2750 2750	 5500
Rao Profit & loss Adjustment A/c To Sen	7400 100	 7500

Suspense A/c

Particulars	Amount	Particulars	Amount
To profit & loss A/c Adjustment A/c	2500	BY differences in Trial balances BY Profit & loss Adjustment A/c	2400 100
	2500		2500

Profit & loss Adjustment A/c

Particulars	Amount	Particulars	Amount
To suspense A/c	100	By Furniture A/c	8000
To Sen	100	BY Machinery	2750
To Capital	13050	By Suspense	2500
	13250		13250

QUESTION 11. The book of account of Jawahar for the year ended 31st March 2017 were closed with different in the trial balances carried forward . Subsequently the following errors were detected :
1) Rs 1500 being the total of discount column on the credit side cash book was not posted in general ledger .
2) Closing stock was overstated by Rs 9000 being casting error in the schedule of inventory.
3) Return outward book was under cast by Rs 150.
4) A credit sales of Rs 870 was under wrongly as 780 to the customer's account.
5) Rs 6000 being the cost of purchase of office furniture was entered in the purchases book.
Pass rectified entries and prepare suspense account and find out the effect of rectification of errors on profit as on 31st March 2017.

QUESTION 12. Before preparing the final accounts, an accountant prepared a trial balances which did not agree. He transferred the different to a suspense account. Before preparing the final account he was able to locate the followed errors :
1) Rs 20000 paid by way salaries were not posted from the cash book to the ledger.
2) Rs 100 paid for conveyances was debited to car maintenance accounted
3) Purchase account includes purchase of machine costing Rs 25000.
4) The cash column in the cash book on the receipt side was under cast by Rs 300.
Pass journal entries to rectify the above mentioned errors.

Question 13. During the course of an accounting year accountant prepared a trial balances which did not tally. He put the differences in a suspense accounted. Subsequently, he located the following errors in his book of account :

1) The total of the returns outward book Rs 21500 has not been posted.
2) A sales of Rs 4300 to Ramesh has been credited to him as RS 3400.
3) A sales of Rs 2960 to Shyam has recorded in sales book as Rs 2690.
4) Old furniture sold for cash worth Rs 5400 has been entered in sales account as Rs 4500. There was no profit or loss on sales.
Pass journal entries to rectify the above mentioned errors.

Answer :-

1	Suspense A/c To Returns Outward A/c	21500	 21500
2	Ramesh To Suspense A/c	7700	 7700
3	Shyam To sales	270	 270
4	Sales A/c Suspense A/c To furniture A/c	4500 900	 5400

QUESTION 14. At the end of an accounting year trial balances of a concern agree but the followed errors were discovered after preparing the final accounts.
1) No adjustment entry was preparing for an amount of Rs 2000 of outstanding rent.
2) Purchases book was over cast by Rs 1000.
3) Depreciation of Rs 4000 on machinery had omitted to be recorded in the books
4) Rs 600 paid for purchases of stationery had been debited to purchases account.
5) Sales book was over cast by Rs1000.
6) Rs 5000 received in respect of book debts had credited to sales accounts.
Show the effect of each one of the above-mentioned errors on the net profit of the year to which these errors pertain. If the net profit as profit and loss account is 322000 what is the correct profit arrived at after the rectification of above errors?
Answer :-

Statement showing effect on profit & loss A/c

Particulars	**Overstated**	**Understated**
No entry for outstanding rent	2000	----
Purchase overcastted	---	1000
Depreciation omitted to be recorded	4000	---
No entry		
Sales overcastted	1000	---
Sales overcastted	5000	---

Profit overstated = 12000-1000 = 11000
Correct profit = 322000-11000
= 311000

QUESTION 15. The book of Ramesh did not agree. The differences of Rs 27000 in trial balances were places to the debit account. Subsequently the following errors were located. Pass journal entries to rectified the errors and prepare suspense account .

1) The total of the purchases returns book Rs 2100 has not been posted
2) A sales of Rs 4300 to Ram has been credited to his account as Rs 3400
3) A purchase from Suresh for Rs 4000 has been entered in the sales book. However Suresh has been correctly credited with Rs 4000.
4) Old furniture sold on credit for Rs 5400 has been recorded in the sales book as Rs 4500.
5) Goods taken away by Ramesh the proprietor for the personal use worth Rs 750 have not been recorded in the book of account at all.

Chapter-3 BANK RECONCILIATION STATEMENT

Generally Bank gives a small books to its customer in which the transactions made by us(customer) with bank are recorded. This small book is known as **Bank Pass Book**. It contains a copy of the customer account at bank. The balance shown by the bank passbook should agree with the bank balance shown by cashbook. However, often there is a difference even if there is no mistake. The difference is due to following reasons:

i. Cheques received entered in the cash book as soon as they are received, however the same has not deposited in to bank.
ii. The received cheque has been deposited into bank but the cheque has not been realised and the bank has not given credit to the customer. In this case, cash book will show more balance than what the bank shows in the customer's account.
iii. When the Cheques are issued to the other, the entry for issuing a Cheque is recorded in cash book but the person who received a cheque did not present the cheque into bank for payment, this means that the bank shows a higher balance in favour of the client than what the cashbook of the client shows.
iv. The bank often makes some bank charges for services it renders. If there is an overdraft, the bank will also charge interest. These bank charges and interest are recorded in the passbook and the entry is generally made in cashbook only when the passbook is received.
v. Sometimes the bank is entrusted with the task of collecting interest on securities or dividends on shares or even the collection of amounts due on bills of exchange or promissory notes. The bank will credit the customer as soon as the amounts are received but the entry by the customers in the cashbook must await receipt of information by the customer from the bank.
vi. The bank may also make payments according to the standing instruction of the client or in respect of any special instruction such as presentation of documents for supply of goods for which a letter of credit has been opened previously. Entries in the cashbook in such cases are made on receipt of advise from bank.

To know the reason or differences between balances shown by the bank pass book and that shown by the in cashbook on a particular date and to be sure, that no mistakes have been committed there must be statement. The statement is known as the **bank reconciliation statement**. It helps management to check the accuracy of the entries made in the cashbook and keep track of checks, e.t.c. which may have been sent to bank for collection. The bank reconciliation statement can be prepared starting from the bank passbook balances as well as cashbook balances

[1] RECONCILIATION STATEMENT STARTING FROM THE PASSBOOK BALANCE

		Rs.
Balance as per Bank Pass book		*****
Add : Cheque deposited in to bank but not Yet credited by the Bank:		
Mr. X	****	
Mr. Y	**"*	
Mr. Z	****	
Add : Bank charges not yet recorded in the cash book		*****
Less : Cheque issued but not yet presented into bank for payment :		*****
Mr. P	****	*****
Mr. Q	****	
Mr. R	****	
Less : Interest entered in the pass book not yet recorded in the cash book		*****
Balance as per cash book		*****
		*****

|2|. RECONCILIATION STATEMENT STARTING FROM CASH BOOK BALANCE.

		Rs.
Balance as per Cash book		*****
Add : Cheque issued but not yet presented into bank for payment		
Mr. P	****	
Mr. Q	****	
Mr. R	****	
Add : Interest credited in the pass book but not yet recorded in cash book		*****
Less : Cheque deposited in to bank but not yet credited by Bank		*****
Mr. X	****	*****
Mr. Y	****	
Mr. Z	****	*****
Less : Bank Charge entered in the pass book but not yet recorded in cash book		*****
Balance as per Bank Pass book		*****

➢ **Bank reconciliation Statement in case of overdraft**:-- **Preparation of the Bank Reconciliation Statement**

Take the cash book or the pass book balance and then see what has been done or not been done in the other book. Thus if we start from the pass book balance, we must see what has been or not been done in the cash book. Then work out the balance as if the entries passed in the cash book had also been passed in the pass book and the entries not passed in the cash book had also been removed from the pass book. If we start from the cash book, we should follow the pass book entries.

Question: 1 IOCM Ltd has a current account with the state bank of India . On 31st March 2012 the bank column of its cash book showed a debit balances of RS 154300. However the bank statement showed a different balances as on that date . The following were the reasons for the difference :

1) cheques deposited but not yet credited by the bank Rs 75450
2) Cheques issued but not yet presented for payment Rs 80760
3) Bank charges not yet recorded in the cash book Rs 1135
4) Cheques received by the bank directly from trade debtors Rs 135200
5) Insurances premium paid by the bank as per standing instruction but not yet recorded in the cash book Rs 15400
6) Dividend collected by the bank but not yet recorded in the cash book RS 1000

Find out balances as per the bank statement as on 31st March 2012 .

Question: 2 On 31st March 2012 the cash book of Rahul showed a bank overdraft of Rs 7640 . On the same data Rahul received the bank statement . On perusal of the statement Rahul ascertained the following information :

a) Cheques deposited but not credited by the bank 10000
b) Interest on securities collected by the bank but not recorded in the cash book. 1280
c) Divided collected by the bank directly but not recorded in the cash book 1000
d) Cheques issued but not presented for payment 37400
e) Bank charges not recorded in the cash book 340

From the above information you are required to prepare the BRS ascertain the bank as per bank statement.

Answer:

Particulars	Plus	Minus
Overdraft as per Cash Book		7640
Add:-		
Interest on securities collected by the bank but not recoded in cash book	1280	
Dividend directly collected by the bank not recorded in cash book.	1000	
Cheques issued not presented for payment	37400	
Less:-		
cheques deposited but not credited by the bank		10000
Bank charges not recorded in cash book		340
	39680	17980
Balances as per Pass book	39680	39680

Question: 3 From the following information prepare a bank reconciliation statement as on 30st September 2013:

1) Overdraft as per cash book Rs 12000.
2) Cheques for Rs 40000 were sent to the bank for collection but cheques for Rs 25000 only had been collected and credited .
3) Cheques worth Rs 30000 were issued but cheques for Rs 18000 only were presented for payment.
4) A customer paid Rs 28000 directly into bank account.
5) Bank charges interest Rs 250 on overdraft.
6) A cheque for Rs 5000 Form a customer correctly recorded in the cash book but was omitted to be sent to the bank for collection.
7) Fire insurances premium paid by bank under instruction Rs 2000 not recorded in cash book .
8) Bill Discounted with bank was dishonoured for which no entry is made in the cash book.

Question: 4 From the followed information supplied by Anil prepare the bank reconciliation statement as on 31st March 2013 after amending the cash book on the date :

Bank overdraft as per cash book	16500
Cheques issued but not presented for payment	8750
Cheques deposited with the bank but not collected	10500
Cheques recorded in the bank column of the cash book but not sent to the bank for collection	2000
Bank charges debited in the bank statement	250
A bill for Rs 3000(discounted with the bank in February 2013) dishonoured on 31st March and noting charges paid by the bank	30
Premium on the life insurance policy of Anil paid by the bank as per standing instruction	1800

Question: 5. According to the Cash-Book of Gopi, there was a balance of Rs. 44,500 standing to his credit in Bank on 30th June, 2013. On investigation you find that

i. Cheques amounting to Rs. 60,000 issued to creditors have not been presented for payment.
ii. Cheques paid into Bank amounting to Rs. 1,05,000 out of which Cheques amounting to Rs. 55,000 only collected by the Bank upto 30th Jun 2013.
iii. A dividend of Rs. 4000 and rent amounting to Rs. 6000 received by the bank and entered in the Passbook but not recorded in the Cash-book.
iv. Insurance premium (up to 31.12.13) paid by the bank but Rs. 2700 not entered in the cash book.
v. The payment side of the Cash-book had been undercast by Rs. 50.
vi. Bank charges Rs. 50, shown in the Pass-book had not been entered in the Cash-book
vii. A bill payable for Rs. 2,000 has been paid by the Bank but is not entered in the cash book and bill receivable for Rs.6,000 has been discounted with the Bank at a cost of Rs. 100 which has also not been recorded in Cash-book.

You are required :
(a.) to make the appropriate adjustments in the Cash-book, and
(b.) to prepare a statement reconciling it with the Bank Pass-book.

Question: 6 Following are the entries recorded in the Bank Column of the Cash Book of Mr. X for the month ending on31.3.97.

Cash Book (Bank Column)

Date	Particulars	Rs.	Date	Particulars	Rs.
15.3.97	To Cash	36,000	1.3.97	By Balance b/d	40,000
20.3.97	To Roy	24,000	4.3.97	By John	2,000
22.3.97	To Kapoor	10,000	6.3.97	By Krishnan	400
31.3.97	To Balance c/d	7,640	15.3.97	By Kailash	240
			20.3.97	By Joshi	35,000

On 31.3.1997 Mr. X Received the Bank Statement. On perusal of the statement, Mr. X ascertained the following information.

1. Cheques deposited but not credited by the bank Rs. 10,000.
2. Interest on securities collected by the bank but not recorded in cash book Rs. 1080
3. Credit transfer not recorded in the cash book Rs. 200
4. Dividend collected by the bank directly but not recorded in the cash book Rs. 1000
5. Cheques issued but not presented for payment Rs. 37,400.
6. Interest debited by the bank but not recorded in the cash book Rs. 1000.
7. Bank Charges not recorded in the cash book Rs. 340.

From the above information you are asked to prepare a Bank reconciliation statement to ascertain the balance as per bank statement.

Question: 7. On 31st march, 2001 the Cash-Book of Bittu showed an overdraft of Rs. 17,000 with Bank of India. This balance did not agree with the balance as shown by the bank Pass Book; and you find that Bittu had paid into the bank on 26th march, four Cheques for Rs. 10,000, Rs. 12, 000, Rs.6,000 and Rs 8 000. Of these, the cheque for Rs.6, 000 was credited by the Bank in April, 2001. Bittu had issued on 24th March Cheques for Rs.35,000. Out of these, Cheques for Rs.27,000 had been presented and paid while one cheque for Rs. 1,000 was returned for conversion into a bearer cheque. This was done. The amount is included in the figure of Rs.35,000. The others were not yet presented. You also find that on 31st March, 2001, the Bank had debited Bittu with Rs.1,400 for interest, and Rs.120 for Bank charges, but had not recorded these amounts in the books. Total of a page on the debit side of the Cash Book Rs.9,670 was carried to the next page as Rs.6,790. It was also found that the total of one page on the payments side of the cash book was Rs.5,670 but it was written on the next page as Rs. 7,650. You are required to prepare a Bank Reconciliation Statement as at 31st March, 2001 and ascertain the balance as per the Bank Pass Book.

Question: 8 Reconcile the following:- Cash Book (Bank Columns only)

2000			Rs.	2000			Rs.
Aug.	1	To Balance b/d	7,000	Aug.	4	By Drawing Account	2,500
	10	To Sharad	1,000		7	By Rent Account	2,400
	13	To Anand	5,000		13	By Kiran	4,000
	16	To Sat Pal	1,800		27	By Mohan	1,200
	28	To Gyan	3,200		28	By Raman	1,600
	30	To Babu	6,000		29	By Radhey	1,800
	31	To om	4,200		31	By Mahesh	1,100
					31	By Balance c/d	13,600
			28,200				28,200

Bank Pass Book

Date		Particulars	Debit	Credit	Dr. or Cr.	Balance
2000						
Sept.	1	By Balance b/fd			Cr.	2,900
	1	By Dividend		400	Cr.	3,300
	3	To Cheque — Raman	1,600		Cr.	1,700
	3	By Cheque— Gyan		3,200	Cr.	4,900
	7	To Cheque—Mahesh	1,100		Cr.	3,800
	7	To Cheque — Rent	2,400		Cr.	1,400
	8	By Cheque — Ramesh		100	Cr.	1,500
	8	By Cheque — Babu		6,000	Cr.	7,500
	10	By Cheque — Om		4,200	Cr.	1 1,700
	10	To Cheque — Drawing	1,500		Cr.	10,200

Question: 9 Prepare a Bank Reconciliation Statement as at 30th September 2000. From the following entries in the Bank Column of the Cash Book and the corresponding Pass Book.

Cash Book (Bank Columns only)

2000			Rs.	2000			Rs.
Sept.	1	To Balance b/d	8000	Sept.	4	By Drawings	700
	3	To Raj Kumar	2,200		8	By Sunder	3300
	8	To Rameshwar	1,500		12	By Salary	2,800
	15	To Ram Nath	3,400		16	By Shyam	1,700
	22	To Rakesh	2,600		18	By Suresh	4,200
	27	To Ravi	100		21	By Suraj	2,000
	29	To Rup Narain	350		26	By Swatantra	1,100
					29	By commission	100
					30	By balance c/d	2,250
		Total	**18,150**			**Total**	**18,150**

Bank Pass Book

Date		Particulars	Debit	Credit		Balance
Sept.	1	By Balance b/fd				8,000
	4	To Cheque – Drawings	700		Cr.	7,300
	5	By Cheques – Raj Kumar		2,200	Cr.	9,500
	10	To Cheques – Sunder	3,300		Cr.	6,200
	21	By Cheques – Rameshwar		1,500	Cr.	7,700
	12	To Cheque – Salary	2,800		Cr.	4,900
	17	To Cheque – Shyam	1,700		Cr.	3,200
	20	By Cheques – Rakesh		2,600	Cr.	5,800
	29	By Divided Received		900	Cr.	6,700
		To Bank Charges	15		Cr.	6,685
		To Electricity Bill	60		Cr.	6,625
		To Cheques – Commission	100		Cr.	6,525

Question: 10 Perfect private Limited has two accounts with Ever Bank Limited. The accounts were known as 'Account I' and 'Account II'. As on March 31, 2001, the date of closing of the accounts, the Accounts Books reflected the following:

Account I—Rs. 1,25,000 (Dr.) Account II—Rs. 1,11,250 (Cr.)

The accountant failed to tally the balance with the Pass Book and the following information was available

a) The Bank has charged interest on Account II. Rs 11,375 and credited interest in Account I. Rs.1,250. These were not recorded by the Accountant
b) Rs. 12,500 drawn on March10, 2001 from Account 1 was recorded in the Books in Account II
c) Bank charges of Rs. 150 and Rs. 1,125 for Account I and Account II were not recorded in the cash Books.
d) A deposit of Rs. 17,500 in Account I was wrongly entered in Account II in the Books.
e) Two Cheques of Rs.12,500 and Rs 13,750 deposited in Account I, but entered in Account II in the books, were dishonoured. The entries for dishonoured Cheques were made in Account II.
f) Cheques issued for Rs.1,50,000 and Rs.15,000 respectively from a/c I and Account II were not presented until 5 April 2001.
g) Cheques deposited Rs. 1,25,000 and 117,500 in Account I and II respectively, were credited by Bank only on April 3, 2001.

You are required to prepare the Bank Reconciliation Statement for Account I and in this respect state the amount to be shown in the Balance Sheet.

CHAPTER 4 VALUATION OF INVENTORIES

QUESTION:1 The company deals in three products, A, Band C, which are neither similar nor interchangeable. At the time of closing of its account for the -year 2002-03. The Historical Cost and net realisable value of the items of closing stock are determined as follows:

Items (Rs. in lakhs)	Historical Cost (Rs. in lakhs)	Net Realisable Value
A	40	28
B	32	32
C	16	24

What will be the value of Closing Stock**?** **[May 2004, 4 marks]**

Question 2. X ltd has stock of 100 kg of shampoo. Standard cost per kg Rs 40. Calculate cost of stock.

Question 3. Y ltd has stock of 500 pkd of shampoo. Retail price/pkdRs 90. G.P. Rate 20%. Calculate cost of stock.

Question 4. Rashika ltd produces Pepsi. In the month of April, it produces 1,00,000pkd of Pepsi. Following expenses were incurred during the month of April:
Direct material of = 8,00,000
Direct labour = 2,00,000
Indirect material(e.g. bottle) = 1,00,000 (variable factory overhead)
Fixed production overhead = 2,50,000
Transport cost to stores = 50,000
Assume normal production capacity = 1,20,000 pkd.
Calculate cost per unit.

Question5. The cost structure per kilogram of finished product is given below:

Material cost	Rs. 100 per kg
Direct labour cost	Rs. 20 per kg
Direct variable production overhead	Rs. 10 per kg

Fixed production charges for the year on normal capacity of 1,00,000 kgs is Rs. 10 per kg. 2,000 kgs of finished goods are in stock at the year end. How do you value the quantity in stock as per AS-2.

Question:6 In a production process normal waste is 5% of input. 5,000 MT of input were put in process resulting in a wastage of 300 MT. Cost per MT of input is Rs. 1,000. The entire quantity of waste is in stock at the year end. How will you value the inventory in accordance with the requirements of AS-2?

Question: 7
Receipts

3rd January	500 units @ Rs. 10 per unit
6th January	300 units @ Rs. 10.50 per unit
Issues	
8th January	600 units

Calculate Value of issue

Question: 8 The Aroma Flour Mills Ltd. does not maintain a perpetual inventory of wheat which it buys and issues to the mills. The physical inventory taken on 28th February, 2000 shows the following quantity of wheat on hand.
10 tonnes @ Rs. 420 per tonne.
The purchases during March were as under:

10-3-2000	100 tonnes @ Rs. 425 per tonne.
20-3-2000	50 tonnes @ Rs. 450 per tonne.
30-3-2000	10 tonnes @ Rs. 460 per tonne.

A physical inventory taken on 31stMarch, 2000 shows a stock of 15 tonnes of wheat in hand. Compute the inventory value on 31st March, 2000 by FIFO method.

Question: 9 Below given the accounting data of Raghu running retail business in paints for ending 31st December,2012.

	At cost	At retail
Beginning inventory	20,000	30,000
Paints purchased	1,00,000	1,70,000
Paints available for sales	1,20,000	2,00,000
Net sales for the year		1,60,000
Ending inventory retail		40,000

You are required to estimate the cost of inventory as on 31st December, 2000 using retail method.

Question: 10. A Ltd. uses a single raw material and converts that into a finished product, During the current period the cost of production and sale prices are as shown below :

Raw material 3 units at Rs. 8 each = Rs. 24.00
Costs of conversion = Rs. 26.00
Manufacturing cost = Rs. 50.00
Selling price = Rs. 75.00

On the balance sheet date there is a steep fall in the price of the product to Rs. 45 because of competition and a steep fall in the material prices. Currently materials can be purchased at Rs. 4 per unit. On the balance sheet date there are 1,00,000 units of raw material in stock purchased at a cost of Rs. 8 per unit. You are required to value inventory as on the balance sheet date.

Question: 11. Raw material purchased at Rs. 100 per kilo. Price of raw material is on the decline. The finished goods in which the raw material is incorporated is expected to be sold at below cost. 10.000 kilograms of raw material is in stock at the year end. Replacement cost of the material is Rs. 80 per kilogram. How will you value the inventory having regard to AS-2?

QUESTION:12 Inventories of a car manufacturing company include the value of items, required for the manufacturing of a model-which was removed from the production line five years back, at cost price. As a company auditor how would you react on the above situations? **[CA Inter, Nov 2002 (4 Marks)]**

Answer: Inventory valuation: AS-2 on "Valuation of Inventories" provides that the cost of inventories may not be recoverable if those inventories are damaged, have become wholly or partially obsolete, or if their selling prices have declined. Accordingly, the auditor should examine whether appropriate allowance has been made for the defective, damaged, obsolete and slow-moving inventories in determining the net realizable value.

In this case, items required for the manufacture of a model, which has been withdrawn from the production line five years ago, are included in the stock at cost price resulting in overstatement of inventory and profit. As it appears from the facts given that the net realizable value of these items is likely to much lower than the cost necessary to write down the inventory to "net realizable value" if the items of inventories become wholly or partially obsolete. Under the circumstance, the auditor should qualify the report appropriately.

QUESTION:13. The auditor of a company has a difference of opinion with its chief accountant on the Following matters concerning inventories. What would be v our advice to the auditor?

(a) It has been policy of the company to value the inventories of finished goods (textiles) at selling price since the items have a ready market. However, the auditor objects to this valuation on the basis that it amount to recognizing unrealized profit.

(b) The company incurs Rs. 20,00,000 as fixed production overheads even-year. It normally produces 1,00,000 units in a year. In 2000-01, however, it produces only 40,000 units. Fixed production overheads per unit for the year 2000-01 have been determined by the chief accountant as Rs. 50 (Rs.20,00,000 / 40,000).

(c) What would be your answer in case (b) above if the actual production during the year were 1,25,000 units?

(d) The company deals in five products — A, B, C, D and E. At the time of closing of its accounts for the year, the historical cost and the net realizable value of the items of closing stock are determined as below:

Items	Historical (Rs. in million)	Net realizable value (Rs. in million)
A	20	14
B	16	16
C	8'	12
D	16	25
E	12	8
Total	**72**	**75**

The chief accountant values the closing stock in the draft financial statements at Rs. 72 million. The auditor, however, does not concur with this valuation.

Answer:

(a) The auditor's stand is correct. AS-2 on "Valuation of Inventories' issued by the 'Institute of Chartered Accountants of India', requires that inventories should be valued at the lower of cost and net realizable value. Valuation of Inventories at selling price is not in accordance with AS-2.

(b) AS-2 on 'Valuation of inventories' requires that fixed production overheads should generally be allocated on the basis of normal capacity of production facilities. Accordingly in the instant case, the allocation should be on the basis of 1,00,000 units; i.e. fixed production overheads allocated to each unit of production should be Rs. 20 and not Rs. 50.

(c) AS-2 on 'Valuation of inventories' requires that fixed production overheads should generally be allocated on the basis of normal capacity of production facilities. However in case the actual production during a period is abnormally high, the standard requires such allocation to be made on the basis of actual production. Accordingly in the instant case the allocation should be on the basis of 1,25,000 units, i.e. fixed production overheads allocated to each unit of production should be on the basis of 1,25,000 units, i.e. fixed production overheads allocated to each unit of production should be Rs. 16.

(d) As the 5 products are neither similar nor interchangeable, the valuation of inventory of each product should be on the basis of the lower of its cost and net realisable value as follows:

Items	Balance Sheet valuation (Rs. in million)
X	14
Y	16
Z	8
Total	38

QUESTION: 14. An enterprise has in its stock 10000 bags of cement purchased at a cost of Rs. 180 per bag. The terms of trade are that the cement is delivered at the buyer's door and the cost of delivery of Rs. 10 per bag is paid by the seller. The selling price of cement is Rs. 187 per bag. Find out the value of closing stock ?
Answer: Rs. 17,70,000

QUESTION:15. Normal Production 1,00,000 Units
Fixed Production overheads Rs. 5,00,000
Actual Production
Case I 1,00,000
Case II 80,000
Case lll 1,25,000
Discuss how the fixed production overheads will be allocated to inventory.
Answer*:*Rs. 5, Rs. 5, Rs. 4.

QUESTION : 16. A has purchased 10000 TV's at the cost of Rs. 8,000/- each. On Balance Sheet date there were 2000 TV's in stock. Of these 500 were earmarked against a sales contract at a price of Rs. 9,000/ each. The general price of this brand has dropped to Rs. 7,500/-. Sales contract is committed by both parties. You are required to value stock.
Answer *.Rs.* 152,50,000/-

QUESTION:17 A Ltd. uses a single raw material that converts that info finish product. During the current period the cost of production and sales are as follow :
Raw material 3 units at Rs.8 each Rs. 24.00
Cost of conversion Rs. 26.00
Selling Price Rs. 75.00
On the balance sheet date there is a steep fall in the price of product to Rs. 45/-because of competition and a steep fall in material price. Currently materials can be purchased at Rs. 4 per unit. On the balance sheet date there are 1,00,000 units of raw material in stock purchased on 31.3.2004 at cost of Rs. 5 per unit. You are required to value inventory as on the balance date.

QUESTION: 18 State with reference to accounting standard, how you will value the inventories in the following cases:
1. Raw material was purchased at Rs. 100 per kilo. Price of raw material is on the decline. The finished goods in which the raw material is incorporated is expected to be sold at below cost. 10,000 kgs. of raw material is on stock at the year end. Replacement cost is Rs. 80 per kg.
2. In a production process, normal waste is 5% of input, 5,000 MT of input were put in process resulting in a wastage of 300 MT. Cost MT of input is Rs. 1,000. The entire quantity of waste is on stock at the year end. Suggest accounting treatment of abnormal Loss
3. Per Kg. of finished goods consisted of:
Material Cost Rs. 100 per kg.
Direct labour cost Rs. 20 per kg.
Direct variable production overhead Rs. 10 per Kg.
Fixed production charges for the year on normal capacity of one lakh kgs. Is Rs. 10 lakhs. 2,000 Kgs. of finished goods are on stock at the year end.***CA Final November, 2000 (12 Marks)***

QUESTION: 19 C Ltd., a Pharmaceutical Company, while valuing its finished stock at the year end wants to include interest on Bank Overdraft as an element of cost, for the reason that overdraft has been taken specifically for the purpose of financing current assets like inventory and for meeting day to day working expenses. **[May 2005, Audit 5 marks]**

Answer*:* As per Accounting Standard 2 "Valuation of Inventories", cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. However, it makes clear that interest and other borrowing costs are usually not included in the cost of inventories because generally such costs are not related in bringing the inventories to their present location and condition. Therefore, the proposal of C Ltd. to include interest on bank overdraft as an element of cost is not acceptable because it does not form part of cost of production.

Question: 20 . Sonar Bhandar deals in old colour TVs. It has 4 TVs the particulars of which are given below :
You are asked to compute the value of stock to be included, in Balance Sheet for the year ended 31stMarch 2009:

TVs	Onida Rs.	Philips Rs.	EC Rs.	Sony Rs.	Total Rs.
Cost Price	10,000	20,000	35,000	50,000	1,15,000
(Expenses incurred to bring into godown)	3,000	2,000	5,000		10,000
Net Realisable Value	18,000	30,000	36,000	55,000	1,39,000

Q.21 Value of opening stock = Rs. 70,000
Purchases = Rs. 3,40,000
Manufacturing expense = Rs. 20,000
Gross Profit Margin = 25% on cost.
Selling expense = Rs. 10,000
Sales (Net) = Rs. 5,00,000

Calculate (i) Closing stock
(ii) Cost of goods available for sale
(iii) Cost of goods sold.
(iv) Net profit.

Q.22 Purchases = Rs. 3,00,000
Manufacturing expenses = Rs. 40,000
Sales = 33 1/3 % above cost
Opening Stock = Rs. 40,000
Sales (Net) = 4,50,000
Sales return = Rs. 20,000
Calculate closing stock and gross sales.

Q.23 From the following information, ascertain the value of stock as on 31st March 2012.

	Rs.
Value of stock on 1st April 2011	70,000
Purchase during the period from 1st April, 2011 to 31s March 2012	3,46,000
Manufacturing expenses during the above period	70,000
Sales during the same period	5,22,000

At the time of valuing stock on 31st March 2011, a sum of Rs. 6000 was written off on a particular item which was originally purchased for Rs. 20,000 and was sold for Rs. 16,000. Except for the above transaction, the Gross Profit earned during the year was 25% on cost.

Solution: Statement of Valuating of Stock as on 31st March, 2012

		Rs.
Valuation of stock on 1st April, 2011		70,000
Add: Purchased during the period from 1.4.2011 to 31.3.2012		3,46,000
Add: Manufacturing expenses during the above period		70,000
Less: Cost of sales during the period		4,86,000
Sale	5,22,000	
Less: Gross Profit	1,03,200	4,18,800
Value of Stock as on 31.3.2012		**67,200**

Working Notes:

Calculation of Gross Profit:	**Rs.**
Gross Profit on normal sales 20/100 x (5,22,000 – 16,000)	1, 01,200
Gross Profit on the particular (abnormal) item 16000 – (20,000 – 6,000)	2,000
	1,03,200

Q 24. Opening stock(1st April 2012) = 400 kg@ Rs 24
On 12 April – 500 kg purchased @ Rs22
On 16 April – 300 kg purchased @ Rs20
On 18 April – 450 kg purchased @ Rs25
On 28April company issued 1000 kg to the factory.
Calculate value of closing stock and cost of issue under periodic system by

(i) FIFO Method
(ii) LIFO method
(iii) Weighted average method
(iv) Average method

Q.25. 1, April, 2012 Opening stock = 100 Kg @ Rs. 20

Date	Purchases	Issue	Rate
4 April	200 Kg		Rs. 21
7 April	300 Kg		Rs. 18
10 April	---	150 Kg	---
12 April	100 Kg	---	Rs.22
15 April	---	250 Kg	---
18 April	400kg	---	Rs. 20
20 April	100Kg	---	Rs. 15
22 April	Goods returned to suppliers from the lot purchased on 20th April		
25 April	---	400 Kg	---
28 April	Shortage of 50 Kg		
30 April	150 Kg	---	17

Calculate (i) Value of Closing stock
(ii) Cost of goods available for sale
(iii) Cost of goods sold
(iv)Profit earned if total sales is Rs. 2,00,000
Under: (a) FIFO
(b) LIFO
(C) Weighted Average method
Following perpetual and periodic system of recording .

Q.26 (DELETED FROM SYLLABUS)

Q.27 M/s P & Q purchase shirts @ Rs. 200 per piece. The average freight is Rs.10 and insurance in transit is 1%. Octroi duty is 5 %. On the average, the firm earns a rebate of 4% on its purchase. Godown and storekeeping charges amount to 10 % of the purchase price per annum. In 1999-2000, the firm purchased 10,000 shirts of which 1,500 remained in stock at the end of the year. Of the latter, 100 were such as were out of fashion and were expected to be sold @ Rs.150 per shirt. Ascertain the value of closing stock.

Q.28 M/s X, Y and Z are in retail business, following information are obtained from their records for the year ended 31.3.2012:
Goods received from suppliers (Subject to trade dis. & taxes) 15,75.500
Trade discount 3% and GST 11 %

Packaging and transportation charges 87,500
Sales during the year 22.45,400
Sales price of closing inventories 2,35,000
Find out the historical cost of inventories using adjusted selling price method.

CHAPTER 5: CONCEPT AND ACCOUNTING OF DEPRECIATION

Introduction:- Fixed Assets(property, plant and equipment) like Plant & Machinery, furniture etc. purchased, used for production or providing services for number of accounting years, but its value decreases with passage of time and utilization .i.e. by normal wear and tear, change in technology etc. So this diminution in value must be charged from P & L A/c for calculating exact profit. This charge to Profit and loss Account called Depreciation.

Characteristics of depreciation:

- It is related to depreciable fixed assets only.
- It is fall in the book value of depreciable fixed assets.
- The fall in the book value of an asset is due to the use of the asset
- It is a permanent decrease in the book value of an asset.
- It is continuous decrease in the book value of an asset.

Concept of Depreciation:- Property , plant and equipment are tangible items that:

(a) Are held for use in the production or supply of goods and services, for rentals to other, or for administration purposes; and
(b) Are expected to be used during more than a period of 12 months.

These are also called fixed assets in common parlance. When a fixed asset is purchased, it is recorded in books of account at its original cost/acquisition cost. However fixed assets are used to earn revenues for a number of accounting periods in future with the same acquisition cost until the concerned fixed assets is sold or discarded. It is therefore necessary that a part of the acquisition cost of the fixed assets is allocated as an expense in each of the accounting period in which the asset is utilised. The amount of fixed assets allocated in such manner to respective accounting period is called depreciation. Value of such assets decreases with passage of time mainly due to following reasons:

Diminution – it means decrease in market value of asset.
Wear and Tear – Due to actual use of assets.
Efflux Of time – Due to passage of time, even if assets are not used.
Obsolescence- Due to technological changes, improvement in production method, changes in market demand for product and service and legal and other restriction.
Depletion- decrease in value of assets (natural resources) due to consumption i.e. coal mines, etc.

Objective for providing Depreciation:- Prime objectives for providing Depreciation are:-

(1) **Correct Income Measurement: -** Depreciation should be charged for proper estimation of periodic Profit or Loss.
(2) **True position statement: -** Depreciation should be charged to know actual financial position.
(3) **Funds For replacement: -** Charging depreciation help to General adequate fund in the hand of business for replacement of asset at the end of its useful life.
(4) **Determine True Cost of production:-** For determining true Cost of production, it is necessary to charge depreciation since it's a item of cost.

Factors affecting the amount of depreciation Measurement:-

Following factors require to be considered for calculating depreciation.
(1) Cost of assets
(2) Estimated useful life of asset.
(3) Estimated scrap value (if any) at the end of useful life of asset.

(1) Cost of property plant and equipment (Fixed assets):-

(a) Purchase price of assets including non-refundable import duties and purchase taxes, after deducting trade discounts and rebates.
(b) Any cost directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in a manner intended by the enterprise.
(c) The initial estimate of the costs of dismantling, removing the item and restoring the site on which asset is located.

Examples of costs directly attributable to costs are:

(a) Cost of employees benefits arising directly from acquisition or construction of an item of property, plant and equipment.
(b) Cost of site preparation
(c) Initial delivery and handling costs
(d) Installation and assembly costs
(e) Cost of testing whether the asset is functioning properly.
(f) Professional fees e.g. engineers hired etc.

Following expenses should not become part of the cost of asset:

(a) Cost of opening new facility or business, such as inauguration costs,
(b) Cost of introducing new product or service(for eg cost of advertisement or promotional activities)
(c) Cost of conducting business in a new location or with new class of customers(including cost of staff training)
(d) Administration and other general overheads costs.

2. Useful life:-The period over which depreciable assets is expected to be used by enterprises.
The total number of units expected to be produced or obtained from use of asset of enterprises.

3. Scrap value:- Determination of scrap value is matter of estimation based on many factors. If its value is not significant then it is not considered, if its value is significant its value is considered for charging depreciation at the time of acquisition/installation or at the time of subsequent revaluation of assets.

Method of Providing Depreciation :- there are mainly three methods of charging depreciation as per AS 10.

1. Straight Line Method:- In this method a fixed Amount is written off during the working life till asset become nil. This method is simple and accurate. This method is also known as fixed Installment method /Original cost method. Lease holds property generally depreciated by fixed installment method.

$$\text{Straight Line Depreciation} = \frac{\text{Cost of Assets-Scrap value}}{\text{Useful life.}}$$

2. Reducing Balance Method/ diminishing value method/ written down method:-- Under this method, a fixed percentage of diminishing value of asset is written off each year. Annual charge of depreciation decreases from year to year.

3. UNIT OF PRODUCTION METHOD – In this method depreciation is charged on the basis of expected use or unit of production.

CHANGE IN METHOD OF DEPRECIATION: According to **Accounting Standard 10** issued by ICAI, the depreciation method selected should be applied consistently, to provide comparability of the results of operations of the enterprise from period to period.

- A change from one method of providing depreciation to another method should be treated as change in accounting estimate.
- When such a change in the method of depreciation should apply on all assets existing in the group with **prospective effect only.**

CONCEPT BASED QUESTIONS:

Question 1: On 1st October,2019, COC Ltd purchased a building on Hire purchase basis, Payable Rs. 2,00,000 as down and balance in three instalments of Rs. 2,00,000, 1,50,000 and 1,00,000 respectively. The above instalments include Rs. 40,000, Rs. 30,000 and Rs. 20,000 as interest. Calculate the price at which the building will be recorded in the books of account.

Question 2: On 1st July 2019, X Ltd. purchased a machine for Rs. 2,00,000. On 1st September 2019 it was put to use (installed) and incurred Rs. 25,000 on its installation. But the actual use started on 1 November 2019. Calculate deprecation for 2019-20 and 2020-21. Rate of depreciation 10% p.a. on written down value.

Question 3: On 1st April 2019, COC EDUCATION Pvt ltd purchased a machine for Rs. 2,00,000. On 1st October 2019, a new machine was purchased for Rs. 1,00,000. On 1st April 2020, Company purchased another machine for Rs. 50,000 and on the same date first machine was sold for Rs. 1,10,000. On 31st March.2021, a new machine was purchased for Rs. 1,50,000. On 1st May 2021, Second machine became obsolete and sold for Rs. 30,000. Prepare machinery A/c. Rate of deprecation 10% p.a. on WDV. Accounts are closed on 31st March every Year.

Question 4: COC Ltd purchased on 1 April 2018 a machine for Rs. 2,40,000 and spent Rs 10,000 on its installation. On 1 October 2018, a new machine costing Rs 3,00,000 was purchased. On 1 July 2019, a new machine was purchased for Rs. 1,00,000. On 1 October 2019, first machine became obsolete and sold for Rs 60,000. On the same day company purchased a new machine for Rs 1,50,000.

Depreciation was provided annually on 31st March @ 10%p.a. on the original cost of asset. On 31st March 2021, however, the company changed the method of providing depreciation and adopted the method of writing off 15% on the written down value. Prepare machinery A/C as it would stand at the end of each year from 2018-19 to 2021-22.

Question 5: X ltd purchased on 1 April 2008 a machine for Rs. 3,60,000. It was installed (put to use) on 1 July 2008 and incurred Rs 40,000 as installation charge. On 1 February 2009 company purchased another machine for Rs. 2,00,000 and paid Rs. 40,000 on its registration and Rs 10,000 as commission. On 31 December 2009 a second hand machine costing Rs 5,00,000 was purchased and incurred Rs 50,000 on its repair.

During 2010, on 1 April first machine became obsolete and auctioned it for Rs 80,000 and paid 10% commission on its sale. On the same date a new machine costing Rs 2,40,000 was purchased .

On 31st December 2012, company decided to change the method of charging depreciation from WDV @ 10% to SLM. Prepare machinery A/C from 2008 to 2012 assuming that accounts are closed each year on 31 December.**(HUM MEIN HAI DUM)**

Provision for depreciation

Question 6: On 1st April., 2019, X Ltd purchased a machine for Rs. 1,00,000. On 1stOctober 2020 a new machine was purchased for Rs 250,000. On 1st April,2022, first machine became obsolete and sold for Rs. 20,000. Depreciation is charged @ 10% p.a. on WDV.

Prepare machine A/c, provision for depreciation A/c. Accounts are closed on 31st March every year.

Question 7: On 1st April 2017 a firm purchased machinery for 2,00,000. On 1st October in the same accounting year, additional machinery costing Rs. 1,00,000 was purchased. On 1st October 2018, the machinery purchased on 1st April, 2017 having become obsolete, was sold for Rs. 90,000. On 1st October 2019, new machinery was purchased for Rs. 2,50,000 while the machinery purchased on 1st October 2017 was sold for Rs. 85,000 on the same day.

The firm provides depreciation on its machinery @ 10% per annum on original cost on 31st March every year. Show machinery Account, Provision for Depreciation Account for the Period of three years ending 31st March, 2020.

Question 8: On 1 April 2018, X ltd purchased a machine for Rs 5,00,000. On 1 October 2019, a new machine costing Rs 3,00,000 was purchased. On 1 January 2020 a new machinery costing Rs. 1,80,000 was purchased.

On 1st December 2020 company purchased another machine for Rs 1,50,000. On 1 April 2021, company sold its first machine for RS 1,60,000. On 1 July 2022 second machine also became obsolete and sold it for Rs. 80,000. Depreciation is charged @ 10 % on its diminishing value. Prepare machinery A/C, provision for depreciation A/C and machine disposal A/C, assuming that accounts are closed each year on 31st March.

Question 9:(Concept of change of method of Depreciation with provision for depreciation) On 1 April 2018, X ltd purchased a machine for Rs 2,00,000. On 1 January 2019, company purchased another machine for Rs. 1,20,000. On 1 October 2019, a new machine costing Rs 80,000 was purchased. On 1 January 2020, company sold its first machine for Rs 45,000. On 31 March 2021, company decided to change the method of depreciation from SLM @10% to WDV. Prepare machinery A/C and provision for Depreciation and machinery sold account.

Question 10: On July 1, 2017, A Co. Ltd. Purchases second-hand machinery for Rs. 60,000 and spent Rs. 9,000 on reconditioning and installing it. On January 1, 2018 the firm purchases new machinery worth Rs. 36000. On June 30, 2019, the machinery purchased on January 1, 2018 was sold for Rs. 24,000 and on July 1, 2019 fresh plant was installed. Payment for this plant was to be made as follows:

July 1,2019	15,000
June 30,2020	19,800
June30, 2021	17,400

Payment in 2020 and 2021 include interest of Rs. 4,800 and Rs. 2,400 respectively. The company writes off 10 % on the original Cost. The accounts are closed every year on 31s March. Show the Machinery Account for 3 years ending 31st March. 2020. **(CA FOUND.)**

Question 11:X Co. Ltd. has plant and machinery which on 1st Jan. 2018 was entered in the ledger under two separate account viz. Machinery Rs. 1,28,600 and Provision for Depreciation of Machinery Rs. 72,520. The company maintains a machinery register showing full details. Depreciation is being charged @ 10% p.a. on cost. On 30.6.18 it was decided to stop operation of a section of the plant immediately and sell its machinery ; this had been purchased on 1.1.2009 at a cost (including erection) of Rs. 12,000. It was sold on 15.12.2018 to Alfa Ltd. for Rs. 1600 (ex-factory). The Cost of wages for dismantling was Rs. 100. New and more efficient machinery was purchased from Bita Ltd. on 1.8.2018 at a cost (including erection) of Rs. 20,000. This new machinery commenced operation on 1.10.18. Open machinery account ,provision for depreciation on machinery account and scraped machinery account..
(Bas pyar ho gaya mujhe)

Question 12: P. Ltd. which depreciates its machinery at 10 % p.a. on Diminishing Balance Method, had on 1st January 2003 Rs.9,72,000 on the debit side of Machinery Account. During the year 2003, Machinery purchased on 1st January 2001 for Rs.80,000 was sold for Rs.45,000 on 1st July 2003 and a new machinery at a cost of Rs. 1,50,000 was purchased and installed on the same date, installation charges being Rs.8,000. The Company wanted to change the method of depreciation from Diminishing Balance Method to Straight Line Method with effect from 1st January 2001. Difference of depreciation upto 31st December 2003 to be adjusted. The rate of depreciation remains the same as before. Show Machinery Account. **(CMA INTER 12 MARKS)**

Question 13: A Company had a balance of Rs. 4,05,000 on 1st January, 2003 in its Machinery Account. 10 % p.a. depreciation was charged by w.d.v method. On 1st July 2003, the company sold a part of machinery for Rs.87,500, which was purchased on 1st January 2001 for Rs. 1,20,000 as a part of it become useless, and on the same i.e., on 1st July, 2003, the company purchased a new machine for Rs. 2,50,000. On 31st December, 2003, the Directors of the company decide to adopt the fixed installment method of deprecation instead of diminishing balance method. The rate of depreciation will remain the same. Prepare machinery account in the books of Company for the year ending 2003. **[CA-Nov.2004]**

Question 14: X Ltd. purchased on 1st January 2001 a second hand plant for Rs.60,000 and immediately spent Rs.40,000 in putting the same in working condition. On 1st July 2001 additional machinery costing Rs.40,000 was purchased. On 1st January 2003 the plant purchased on 1st January 2001 became obsolete and was sold for Rs.50,000. On 1st July 2003 new machinery was purchased at a cost of Rs. 1,20,000. The firm provided depreciation on straight line method at 10 % per annum on the original cost of the assets. In 2005 the company decided to provide depreciation on written down value basis at 15% p.a. Show Machinery Account for the calendar years 2001 to 2005.

Answer: **Plant and Machinery Account**

Date	Particulars	Rs.	Date	Particulars	Rs.
01.01.01 01.01.01 01.07.01	To Bank A/c (cost) To Bank A/c (Overhaul) To Bank A/c (Machine II)	60,000 40,000 40,000	31.12.01	By Depreciation A/c: Machine I 10,000 Machine II 2,000 By Balance c/d: Machine I 90,000 Machine II 38,000	 12,000 1,28,000
		1,40,000			1,40,000
01.01.02	To Balance b/d: Machine I 90,000 Machine II 38,000	1,28,000		By Depreciation A/c: Machine I 10,000 Machine II 4,000 By Balance c/d: Machine I 80,000 Machine II 34,000	 14,000 1,14,000
		1,28,000			1,28,000
01.01.03	To Balance b/d: Machine I 80 000 Machine II 34,000 To Bank A/c (Machine III)	 1,14,000 1,20,000	**01.01.03** **31.12.03**	By Bank A/c (Sale Proceeds) By P&L A/c (Loss on Sale) (Rs. 80,000 – Rs. 50,000) By Depreciation A/c Machine II 4,000 Machine III 6,000 By Balance C/d Machine II 30,000 Machine III 1,14,000	50,000 30,000 10,000 1,44,000
		2,34,000			2,34,000
01.01.04	TO Balance b/d Machine II 30,000 Machine III 1,14,000	 1,44,000	**31.12.04**	By Depreciation A/c Machine II 4,000 Machine III 12,000 By Balance c/d Machine II 26,000 Machine III 1,02,000	 16,000 1,28,000
		1,44,000			1,44,000
01.01.05	To Balance b/d Machine II 26,000 Machine III 1,02,000	 1,28,000	**31.12.05** **31.12.05**	By Depreciation A/c Machine II 3,900 Machine III 15300 By Balance c/d Machine II 22100 Machine III 86700	 19,200 1,08,800
		1,28,000			1,28,000

Question 15:(provision for repairs and renewals) The following particulars are available from the books of a public company having a large fleet of vehicles:

Balance in provision for repairs and renewals account as on 31.3.2016 **Rs 11,50,000**

Actual repairs charged/incurred during the year ended 31.3.2016 Rs 7,50,000

31.3.2017 Rs 3,20,000

The company makes an annual provision of Rs 4,00,000 on repairs and renewals. Draw up provision for repairs and renewals account for the years 2015-16 and 2016-17.

Question 16: A firm's plant and machinery account at 1st January,2015 and the corresponding depreciation provision account, broken down by year of purchase are as follows:

Year of purchase	Plant and machinery at cost	Depreciation provision
1998	**2,00,000**	**2,00,000**
2004	**3,00,000**	**3,00,000**
2005	**10,00,000**	**9,50,000**
2006	**7,00,000**	**5,95,000**
2013	**5,00,000**	**75,000**
2014	**3,00,000**	**15,000**
	30,00,000	**21,35,000**

Depreciation is at the rate of 10% per annum on cost. It is the company's policy to assume that all purchases, sales or disposal of plant occurred on 30th June in the relevant year for the purpose of calculating depreciation, irrespective of the precise date on which these events occurred. During 2015 the following transactions took place:

1. Purchase of plant and machinery amounted to Rs 15,00,000
2. Plant that had been bought in 2004 for Rs 1,70,000 was scrapped.
3. Plant that had bought in 2005 for Rs 90,000 was sold for Rs 5,000.
4. Plant that had been bought in 2006 for Rs 2,40,000 was sold for Rs 15,000.

You are required to calculate the provision for depreciation on plant and machinery for the year ended 31st December 2015. In calculating this provision you should bear in mind that it is the company's policy to show any profit or loss on the sale or disposal of plant as a completely separate item in the profit and loss account. You are also required to prepare the following ledger accounts during 2015.

(i) Plant and machinery account at cost
(ii) Depreciation provision account
(iii) Disposal of plant and machinery account. **(ICAI Study material)**

Question 17. M/s Anshul commenced business on 1.1. 2011, when they purchased plant and equipment for 7,00,000. They adopted a policy of charging depreciation at 15% P.A. on diminishing balance basis and over the years, their purchases of plant have been:

Date	Amount
1.1.2012	1,50,000
1.1.2015	2,00,000

On 1.1.2015 it was decided to change the method and rate of depreciation to straight line basis. On this date remaining useful life was assessed as 6 years for all the assets purchased before 1.1.2015 and 10 years for the assets purchased on 1.1.2015 with no scrap value. Prepare plant and equipment account for the year ended on 31st December 2015. **(ICAI Study material)**

Question 18: Voltas Ltd. bought a truck on 1 January, 2000 for Rs. 60,000 and a sum of Rs. 20,000 was spent for various accessories. On 1 July, 2001 another vehicle was purchased for Rs. 52,000. On 1 July 2002, the first truck was sold for Rs. 60,000. On the same date, another truck was purchased for Rs. 50,000. On 1 July 2003, the second vehicle was sold for Rs. 46,000. Rate of depreciation was 10% on the original cost annually on 31 December. In 2002 the method of charging depreciation has changed to diminishing value method, on the balance existing on 31-12-2002 the rate being 15%. p.a Prepare Truck Account for 2000, 2001, 2002 and 2003.

Answer:

Truck Account

2000		Rs.	2000			Rs.
Jan.1	To Cash	60,000	Dec. 31	By Depreciation Account		8,000
	To Cash (Accessories)	20,000		By Balance c/d		72,000
		80,000				80,000
2001			2001			
Jan.1	To Balance b/d		Dec. 31	By Depreciation Account		
	To Cash (Truck II)	72,000		Truck I	8,000	10,600
		52,000		Truck II	2,600	
				By Balance/d		1,13,400
		1,24,000				1,24,000

2002	To Balance b/d	1,13,400	2002	By Cash (Sale of Truck I)	60,000
Jan.1	To Cash (Truck III)	50,000	Julyl	By Depreciation Truck I (1)	4,000
			Dec. 31	By Depreciation Account (2)	11,160
				By Balance c/d	88,240
		1,63,400			1,63,400
2003			2003		
Jan.1	To Balance b/d	88,240	Julyl	By Cash (Sale of Truck II)	46,000
July1	To Profit Loss A/c	7,160	Dec. 31	By Depredation (for 6 months) (3)	3,150
				By Depreciation (Truck III) (4)	6,938
				By Balance c/d	39,312
2004					
Jan1	To Balance b/d	95,400			95,400
		39,312			

Question 19:(Exchange and Loss By Accident) The following information is available from the records of Well Planned Limited in respect of Motor Vehicles used by it in its business: Vehicle No. 1 was purchased for Rs. 20,000 on 1 January, 2012. It was sold for Rs. 2,000 on 1 July, 2015. Vehicle No. 2 was purchased on 1 July, 2012 for Rs. 18,000. Vehicle No. 3 was purchased on 1 January, 2014 for Rs. 12,000 and it was exchanged for a new vehicle No. 5 on January, 1 2016. The cash price of the Vehicle No. 5 was Rs. 10,000 on that date. Vehicle No.4 was purchased on 1 July 2014 for Rs. 10,500. On 1 July, 2017 this vehicle met with an accident and was sold for Rs. 2,500. The company also received Rs. 1,500 from the insurance company in full satisfaction of its claim.

Note: When a vehicle has been used for a part of the year, depreciation is calculated in proportion to such part only.

Required : A consolidated Motor Vehicle Account for the years 2012-17. Year ends on 31st December every year.

Depreciation is written off at the rate of 20% p.a. on the original cost**. (HUM MEIN HAI DUM. AUR KISI KE BAS KI BAAT NAHI)**

Other methods of depreciation

1. Sum of years of Digit Method.-- It is a variation of Reducing Balance method.

Formula for calculating Depreciation.

The number of years (including present year) of remaining life of asset.

Original cost − scrap value × ----------

Total of all digit of life of assets (in years)

Suppose the estimated life of assets is 10 year, the total of all digits from 1 to 10 is 55 .i.e. 10+9+8+7+6+5+4+3+2+1 or by formula.

$$\frac{N(n+1)}{2} = \frac{10x11}{2} = 55$$

Depreciation to be written off in the first year will be 10/55 of the cost of asset less estimated scrap value and depreciation for second year will be 9/55 of cost of assets less estimated scrap value and so on.

Question 20. cost of machine= 2,00,000
Scrap value of machine = 50,000
Estimated life of asset = 5 years
Calculate depreciation by sum of year's digit method for the first year and 4th year.

Question 21. Cost of machine = 4,00,000
Scrap value of machine = 1,00,000
Estimated life of asset = 40 years.
Calculate depreciation by sum of years digit method for the first year and 40th year.

(1) **Annuity Method**

- In this method element of interest on capital invested also considered and it write off the value of asset as well as interest cost over the life of assets.
- It is assumed that capital invested on assets if invested elsewhere would earned interest which must be considered as part of cost of Assets.

- Amount of Depreciation is to be charged annually is ascertained from Annuity Tables, to write off interest on capital as well as capital invested on assets.

Relevant Journal entries are:-

(1) For charging interest on assets Account
Assets A/c Dr.
To Interest A/c
(2) For charging Depreciation on asset
Depreciation A/c Dr.
To Assets A/c
(3) For transferring depreciations to P & L A/c
Profit and loss A/c Dr.
To Depreciation A/c
(4) For transferring interest to Profit & Loss A/c
Interest A/c Dr.
To P & L A/c

Question 22. A lease is purchased on 1st Jan. 2002 for 4 years at a cost of Rs. 20000. It is proposed to depreciate the lease by annuity method charging 5% interest. A reference to the annuity table shows that to depreciate Re. 1 by annuity method over 4 years charging 5% interest, one must write off a sum of Rs. 0.282012 (To write off Rs. 20000, one has to write off every year Rs. 5640.24 (i.e 0.282012 x 20000)
Show the lease account for four year and also the relevant entries in the profit and loss account.

Sol. **Lease A/c**

2002	Account		
1 Jan To Bank	20000	31Dec By Dep. A/c	5640.24
31 Dec To Interest A/C	1000	By Balance c/d	15389.76
(5% on Rs. 20000)	21000		21000
2003			
1 Jan To Bal. b/d	15359.79	31 Dec. By Depreciation	5640.24
31Dec To Interest A/c	16127.75	By Bal. c/d	10487.51
		31 Dec. By Dep. A/c	16127.75
2004		By Balance c/d	
1 Jan To Balance b/d	10487.51		5640.25
31 Dec. To Interest A/C	524.38		5371.65
	11011.89	31 Dec. By Depreciation	11011.89
2005			
1 Jan To Balance b/d	5371.65		5640.24
To Interest A/c	268.59		
	5640.24		5640.24

Profit and Loss Account

2002			
31 Dec. By Depreciation	5640.24	31 Dec. By Int.	1000
	5640.24		1000
2003		2003	
31 Dec. By Depreciation	5640.24	31 Dec. By Interest	767.99
	5640.24		767.99
2004		2004	
31 De. By Depreciation	5640.24	31 Dec. By Interest	524.38
	5640.24		524.38
2005		2005	
31 Dec. By Depreciation	5640.24	31 Dec. By Interest	268.59
	5640.24		268.59

Sinking Fund Method:-The sinking fund method is adopted to provide depreciation in a case where the nature of assets is such as which require large fund at the time of replacement of such assets. The depreciation fund ensure that when replacement is due , ready cash will be available.
The amount written off as depreciation is kept aside and invested in readily saleable securities. The interest received on securities is also reinvested. The securities accumulate and when the life of the assets expires, the securities are sold and new assets are purchased with the help of the sale proceeds.

Since, the securities always earn some interest, it is not necessary to invest the amount equal to full amount of depreciation. It may be something less.

- ⇨ How much amount is to be invested every year so that a given sum is available at the end of a given period, depends on the rate of interest and will be known from the sinking fund table.
- ⇨ Sinking fund table shows- how much is to be invested every year together with interest earned so that at the end of the period one get Rs. 1.00.

At the end of First year: 1 For transferring of depreciation to sinking fund: Depreciation A/c Dr To Depreciation Fund A/c. (Being amount of depreciation transferred to Depreciation Fund)	[with the installment calculated with the help of Sinking Fund Table]
2. For charging depreciation to Profit & Loss A/c: Profit &Loss A/c Dr. To Depreciation A/c (Being the provision made for depreciation)	
3. On investment of amount of depreciation: sinking fund Investment A/c Dr. To Bank A/c (Being cash invested)	
At the end of Second Year: 1. For interest earned on Depreciation fund investment: Bank A/c Dr. To interest on Sinking Fund investment A/c (being receipt of interest on Sinking Fund Investment)	[with the amount of interest actually received on investment]
2. For transfer of aforesaid interest to Sinking Fund interest on Sinking Fund investment A/c Dr. To Sinking Fund A/c (Being amount of depreciation transferred to depreciation fund)	[with annual investment]
3. For transferring of depreciation to sinking Fund A/c depreciation A/c Dr. To Sinking Fund A/c (Being amount of depreciation transferred to Depreciation Fund)	
4. For charging depreciation to Profit & Loss A/c profit & Loss A/c Dr. To Depreciation A/c (Being the provision made for depreciation)	
5. On investment of amount of depreciation and interest: Sinking Fund Investment A/c Dr. To Bank (Being amount of installment of depreciation and interest invested)	

In the last year: 1. On receipt of interest on sinking Fund Investment: Bank A/c Dr. To Interest on Sinking Fund Investment A/c (Being receipt of interest on Sinking Fund Investment A/c)	[with the amount of interest actually received on investment]
2. On transfer of amount of interest to Depreciation fund A/c: Interest on Sinking Fund Investment A/c Dr. To Sinking Fund A/c (Being traf. of int. on Sinking Fund Investment to Sinking Fund A/c)	
3. For transferring of depreciation to Sinking Fund A/c: Depreciation A/c Dr. To sinking Fund A/c (Being transfer of depreciation to Sinking Fund A/c)	[with annual investment]
4. For charging depreciation to Profit & Loss A/c: Profit and Loss A/c Dr.	

To Depreciation A/c (Being provision of Depreciation.)	
5. On receipt of amount from Sinking Fund Investment: Bank A/c Dr. To Sinking Fund Investment A/c (Being cash received on Sinking Fund Investment)	[with the net sale proceed; of depreciation fund Investment]
6. For transfer of profit (if any) earned on Sinking Fund Investment: Sinking Fund Investment A/c Dr. To Sinking Fund A/c (Being traf. of profit on Sinking Fund investment to Sinking Fund A/c.)	
7. For transfer of loss (if any) incurred on Sinking Fund Investment: Sinking Fund A/c Dr. To Sinking Fund Investment A/c (Being transfer of loss on Depreciation Fund Investment to Depreciation fund A/c)	
8. Sinking Fund A/c Dr. To fixed assets A/c (Being transfer of Balance of fixed Assets to Dep. Fund A/c)	[with the book value of assets]
9. Sinking fund A/c Dr. To Profit and Loss A/c (Being transfer of balance of Sinking Fund A/c to profit and Loss A/c)	
10. Profit and Loss A/c DR. To Sinking Fund A/c (Being transfer of balance of Sinking Fund A/c to P & L A/c)	

(2) **Machine hour Method:-**

- Under this method, depreciation is calculated on the basis of machine hour that machine worked.
- Machine hour rate of depreciation is calculated after estimating the total number of hours that machine would work during its whole life.
- However total number of machine hour during its life may varied from time to time on consideration of changes in economic and technological conditions, so in those circumstances we will adjust depreciation accordingly.
- It is slight variation of straight line method.

Question 23:- machine was purchased for Rs. 3, 00,000 having an estimated total working hour of 24000 hours. The scrap value is expected to be Rs. 20000 and anticipated pattern of distribution of effective hours is as follows

Year	
1—3	3000 hour per year
4—6	2600 hour per year
7—10	1800 hour per year

Solution:- Annual depreciation under Machine hour Rate Method.

Year	Annual Depreciation		
1—3	$(300000-20000) \times \frac{3000}{24000}$	=	Rs. 35000
4—6	$(300000-20000) \times \frac{2600}{24000}$	=	Rs. 30333
7—10	$(300000-20000) \times \frac{1800}{24000}$	=	Rs. 21000

(3) **Production Units Method:-** Under this Method, depreciation is calculated; on the basis of production units that machine will produce during its useful life.

$$\text{Depreciation for the period} = \text{Depreciable Amount} \times \frac{\text{Production during the year}}{\text{Estimated total production}}$$

Question 24:- A Machine is purchased for Rs. 200000. Its estimated useful life is 10 years with a Residual value of Rs. 20000. The Machine is expected to produce 1.5 lakh units during its life time. Expected production is as follows:

Year	**Production**
1—3	20000 Units per year
4—7	15000 Units per year
8—10	10000 Units per year

Sol.

Year	Annual Depreciation		
1—3	(200000-20000) x 20000/150000	=	Rs. 24000
4—7	(200000-20000)x 15000/1500000	=	Rs. 18000
8—10	(200000-20000)x 10000/150000	=	Rs. 12000

(4) **Depletion Method:-**

- This method is adopted for wasting assets like quarries, mines etc.
- Under this method, depreciation is calculated on the basis of quantity extracted from total estimated quantity.
- Annual depreciation will be quantity extracted multiplied by rate per unit.

Question 25:- M/S Rinku & Co. took lease of a quarry on 1-1-2003 for Rs. 100,00,000. As per technical estimate the total quantity of mineral deposit is 2,00,000 tonnes. Depreciation was charged on the basis of depletion method. Extraction Pattern is given on following table:

Year	Quantity of Mineral Extracted
2003	2000 Tonnes
2004	10000 Tonnes
2005	15000 Tonnes

Show the Quarry Account and Depreciation Account for each year from 2003 to 2005.

Solution **Quarry lease Account**

2003			2003	By Depreciation	100000
1Jan	To Bank A/c	10000000	31Dec.		9900000
		10000000		By Bal. c/d	10000000
2004					
1Jan	To Balance b/d	9900000	31Dec.	By Depreciation	500000
		9900000	2004	A/c	9400000
					9900000
2005	To Balance b/d	9400000	2005	By Depreciation	750000
1Jan		9400000	31Dec.	A/C	8650000
				By Balance c/d	9400000

Depreciation Account

2003			2003		
31Dec	To Quarry Lease A/c	100000	31Dec	By P & L A/c	100000
		100000			
2004					100000
31Dec	To Quarry Lease A/c	500000	2004		
		500000	31Dec	By P & L A/c	500000
2005					500000
31Dec	To Quarry Lease A/c	750000	2005	By P & L A/c	750000
		750000	31Dec		750000

6A. BILLS OF EXCHANGE AND PROMISSORY NOTES

Introduction :- Generally when goods are sold on credit, seller would like that purchaser should give promise in writing to pay amount of goods on creation date. Now it become an commercial practice that creditor gives written promises to debtor in proper form and which is properly stamped for paying at certain specified date. These written promises are often accepted by banks and they advance money against these. The written promises may be in form as Bill as exchange and promissory note.

Definition--According to section 5 of Negotiable instrument Act 1881, A bill of exchange is an instrument in writing containing an unconditional order sighed by the maker directing a certain person to pay a certain some of money only to, or to the order of certain person to the bearer of instruments. In other words, a bill of exchange is an unconditional order in writing given by the creditor to debtors in writing which is payable on demand at a fixed future time, a certain sum of money.

Essential features of Bill of Exchange are as follows:-

(1) It must be in writing and unconditional order.
(2) It must be dated.
(3) It must contain promise to pay certain sum of money.
(4) Money will be payable to certain person or payable to bearer of Bill at exchange.
(5) Amount payable accepted by creditor in writing on its face.

Specimen of Bill of Exchange

Rs.20,000/- Delhi

Oct 10,2019

Stamp

Three months after date pay to M/s Tata Sons or order the sum of Rs.20,000/- for value received

Stamp

- **A foreign bill of exchange is generally drawn-up in triplicate.**
- **Section 12 of negotiable instruments Act 1881 says that all instruments which are not inland instruments are foreign.**

Following are examples of foreign Bill of exchange and Promissory Note

1. A bill drawn in India on a person resident outside India and made payable outside India.
2. A bill drawn outside India and made payable outside India.
3. A bill drawn outside India on a person resident outside India
4. A bill drawn outside India and made payable in India.

Promissory Notes:-- According to section 4 of Negotiable instrument Act 1881, A promissory note is an instrument in writing (not being a bank note or currency note) containing an unconditional undertaking, signed by maker to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instruments. **Under section 31(2) of the reserve bank of India Act a promissory note cannot be made payable to bearer.**

It has following feature or characteristics :-

1. It must be in writing and unconditional promise to pay.
2. Mere acknowledgement of debt is not promissory note.
3. The person who makes promise(promisor) to pay must sign the instrument.
4. The payee must be certain person.
5. Amount payable on promissory note must be certain Amount. It must not contain contingent additions or subtractions for example, promise to pay Rs.10,000/- including all fines and penal interest is not certain.
6. payment must be in legal currency of the country.
7. It should not be made payable to bearer.
8. It should be properly stamped.

Specimen of promissory note

Rs,50,000/- only

COC EDUCATION Pvt Ltd

1201, ithum. Noida

31st Dec. 2019

Six months after date, I promise to pay XYZ (Payee) or his order the sum of Rs.50,000/- only

Stamp

- When we talk about Bill of Exchange it includes Promissory Notes also.

Distinction Between Bills of Exchange and Promissory Note:

Bill of Exchange	Promissory Notes
◆ It is an unconditional order directing a certain person to pay a certain sum of money	◆ It is an unconditional promise to pay a certain sum of money.
◆ Generally, there are three parties in the bill of exchange- the drawer, the drawee and the payee.	◆ There are two parties in a promissory note- the promisor or maker and the payee.
◆ A bill of exchange requires acceptance by the drawee after if is drawn by the drawer.	◆ This does not require acceptance. It is writtenby the person who will pay the amount.
◆ Bill of exchange may be payable either on order or to the bearer.	◆ Promissory note can not be payable to bearer
◆ In case of Bills of exchange notice of dishonour is given to all parties concerned.	◆ In case of promissory note, notice of dishonour is not required.
◆ The maker (Drawer) of the Bill is liable only when drawee does not make payment.	◆ The maker is primarily liable to pay the amount.
◆ In Case of foreign bills protest is necessary if it is required as per law of the country where bill has been drawn.	◆ Protest is not required for promissory note.

Cheque: A Cheque is a bill of exchange drawn on a specified banker and payable on demand. It includes the electronic image of a truncated cheque and a cheque in the electronic form. **A cheque is a bill of exchange with two additional qualifications.**

- ◆ It is always drawn on a specified bank and
- ◆ It is always payable on demand.

Distinction between Bills of Exchange and Cheque:

Bill of Exchange	Cheque
• This requires acceptance by the drawee.	• This does not require acceptance.
• This can be drawn on any person including bank.	• This can be drawn on Bank only.
• Notice of dishonour is necessary.	• Notice of dishonour is not necessary.
• A bill of exchange may be payable either on demand or after a specified period.	• Cheque is always payable on demand
• A bill of exchange generally requires stamping.	• This does not require stamping.
• Bills of exchange can not be crossed	• A cheque may be crossed.
• A time bill should be presented on the due date.	• A cheque can be presented at any time within 6 months from the date of cheque.

Negotiability: Promissory Notes, Bill of Exchange and Cheque all are negotiable instrument. The holder can claim payment on them subject to conditions that the holder takes them: -

(i) without notice of defect in the title of the transferor, i.e. in good faith.
(ii) for consideration and
(iii) Before maturity.

Example: If A steals a bill of exchange and passes it on to B who is not aware of A's mode of acquiring the bill and who takes it for the value and before the due date of the bill, B will be entitled to get payment on the bill. Here B is a holder in due course. **A holder in due course always gets a good title in case of forgery.** Moreover whoever gets the bill after the holder in due course will also get a good title to it; it has been purged of all defects.

The instrument may be passed on from one person to another by endorsement and delivery. The liability of the endorser to subsequent parties is same as in the case of endorsement of cheque. Thus, if a bill of exchange is dishonored, i.e. if payment is not made on the due date by the promisor (drawee in case of bill of exchange), money can be claimed from any of the previous endorsers, the payee and the maker of the instrument.

Discounting of Bills: When the bill is taken to a bank and the necessary cash is received, the act is known as discounting. The bank will always deduct a small sum depending upon the rate of interest and the period of maturity.

Maturity of a promissory note or bill of exchange: "The maturity of a promissory note or bill of exchange is the date at which it falls due." A promissory note or a bill of exchange may be payable:-

a) On demand; or
b) On a specified date, or
c) After a specified period.

In the first case amount is payable on the instrument, when the demand is made. In the second case, payment can be claimed on a specified date. In the third case, date of maturity has to be calculated. Every instrument, payable otherwise than 'on demand' is entitled to three days of grace.

The following instruments are not entitled to 'days of grace'.

(a) A cheque
(b)A bill or note payable 'at sight' or on presentment' or 'on demand',

(c) A bill or note in which no time is mentioned.

The following instruments are entitled to 'days of grace':

(a) A bill or note payable on a specified day,
(b) A bill or note payable 'after sight,

(c) A bill or note payable at a certain period after date,

(d) A bill or note payable at a certain period after the happening of a certain event.

- **(m.imp)Calculation of date of maturity :--**

If a promissory note or bill of exchange is made payable after stated number of months after date or after sight or after a certain event, it becomes payable three days after the corresponding date of the month after the stated number of months. If the month in which the period would terminate has nocorresponding day. The period shall be held to terminate on the last day of such month.

1. In the above case, the day on which the instrument is drawn or presented for acceptance or sight or the day on which the event happens is to be excluded.
2. When the day on which a promissory note or bill of exchange is at maturity is a public holiday, the instrument shall be deemed to be due on the preceding day. E.g. A bill falling due for payment on August 15 will have to be paid on August 14.

Dishonour of bill: A bill may be dishonored either by non-acceptance or by non-payment. When an instrument is dishonored the holder must give notice of dishonour to the drawer or his previous holders if he wants to make them liable.

Dishonoured by non acceptance:-- A bill is said to be dishonored by non acceptance:-

a. when the drawee does not accept it within 48 hours from the time of presentation for acceptance.
b. When presentation for acceptance is excused and the bill remained unaccepted.
c. When the drawee is incompetent to contract.
d. When the drawee is fictitious person or after reasonable search, can not be found.

Dishonored by non payment:- A promissory note, a bill of exchange or cheque is said to be dishonored by non payment: ---
When the maker of the note, acceptor of the bill or drawee of the cheque makes default in payment upon being duly required to pay the same; and When presentation for payment is excused and the installment when overdue remains unpaid.

Record of bills of exchange or promissory notes:

- A person who receives a promissory note or receives an accepted bill of exchange will treat it as new assets under the name of Bills Receivable
- A parts "who issues a promissory note or accept a Bill of Exchange will treat it as liability under theheading of Bills Payable.

Noting charges:- "Noting" must be recorded with Notary Public within a reasonable time after the dishonour and must contain the fact of dishonour, the date of dishonour, the reason if any given for such dishonour and the noting charges. For this service they charge a small fee. This fee is known as noting charges. Noting charges have to be born by the person responsible for dishonour. Hence, when a bill is dishonored, the amount due is the amount of the bill plus the noting charges. However, if the acceptor proves that the bill was not properly presented to him for payment, he may escape his liability.

Renewal of a bill :-- Sometime the accepter is unable to pay the amount and he himself moves that he should be given an extension of time. In such a case, a new bill will be drawn and the old bill will be cancelled. If this happens, entries should be passed for cancellation of the bill as in case of dishonour of bill. When the new bill is received, entries for receipt of bill will be repeated.

Accommodation of Bills :-- Bills of exchange are usually drawn to facilitate trade transaction, finance actual purchase and sale of goods. But apart from, financing transaction in goods, bills may also be used for raising fund temporarily.

Suppose, A needs finance to the extent of Rs. 10000/- for 3 months. In this case he may induce his friend B to accept a Bill of Exchange drawn on him for Rs. 10000/- for 3 months. A can then get the bill discounted with his bank paying a small sum of discount. Thus he can use the funds for 3 months and just before maturity, he will remit the amount to B to whom the bill will be presented by the bank for payment.

If both A and B need money, the same device can be used. Either A accepts a bill of exchange or B does. In either case the bill will be discounted with the bank and proceeds divided between the two parties according to mutual agreement. The discounting charges must also be born by two parties in the same ratio in which the proceeds are divided on the due date the acceptor will receive from the other party his share. The bill will then be met. When bills are used for such purpose, they are known as accommodation bills.

⇨ In case of accommodation of bills, all the journal entries are passed in the books of two parties as same inthe ordinary bills.

⇨ The only additional entries to be passed are for sending the remittance to the other parties and also debiting the other parties with the requisite amount of discount.

Bankruptcy: Bankruptcy/Insolvency of a person means person who has accepted the bill is unable to pay his liabilities and When it is known, the acceptor of the bill has become insolvent; entry for dishonour of his acceptancemust be passed. When and if an amount is received, cash account will be debited and personal account of debtor will be credited. The remaining amount will be irrecoverable and should be written off as bad debt.

CONCEPT BUILDING QUESTION

(IF BILL HONOURED ON DUE DATE)

Question: 1 Firm sold goods to X for Rs. 2,00,000 and received his acceptance payable after 3 months. On the due date bill was met.

Question:2 Firm sold goods to X for Rs. 2,00,000 and received his acceptance payable after 3 months. Bill was discounted by firm @ 12% p.a. On the due date bill was met.

Question:3 Firm sold goods to X for Rs. 2,00,000 and received his acceptance payable after 3 months. Firm endorsed his acceptance to Mr. C, a creditor for Rs. 2,00,000. On due date bill was met.

Question:4 Firm sold goods to X for Rs. 2,00,000 and received his acceptance payable after 3 months. Firm endorsed his acceptance to Mr. C, a creditor for Rs. 2,20,000 in full settlement of his claim.

Question:5 Firm sold goods to X for Rs. 2,00,000 and received his acceptance payable after 3 months. Firm endorsed his acceptance to Mr. C, a creditor, for Rs. 2,20,000 in part settlement of his claim.

Question:6 Firm sold goods costing Rs. 1,60,000 for Rs. 2,00,000 to X and received his acceptance payable after 3 months. Firm sent bill to his bank for collection. On due date bill was met. Bank charged Rs. 50 for his service.

IF BILL DISHONOURED ON DUE DATE

Question:7 Firm sold goods to X for Rs. 2,00,000 and received his acceptance payable after 3 months.Bill was dishonored on due date. Noting charges paid Rs.200.

Question:8 Firm sold goods to X for Rs. 2,00,000 and received his acceptance payable after 3 months. Bill was discounted by firm @ 12% p.a. Bill was dishonored on due date. Noting charges Rs. 200.

Question:9 Firm sold goods to X for Rs. 2,00,000 and received his acceptance payable after 3 months. Firm endorsed his acceptance to Mr. C, a creditor for Rs. 2,00,000. Bill was dishonored on due date and noting charges paid Rs. 200.

Question:10 Firm sold goods to X for Rs. 2,00,000 and received his acceptance payable after 3 months. Firm endorsed his acceptance to Mr. C,a creditor for Rs. 2,20,000 in full settlement of his claim. Bill was dishonored on due date and noting charges paid Rs. 200.

Question:11 Firm sold goods to X for Rs. 2,00,000 and received his acceptance payable after 3 months. Firm endorsed his acceptance to Mr. C, a creditor, for Rs. 2,20,000 in part settlement of his claim. Bill was dishonored on due date and noting charges paid Rs. 200.

Question:12 Firm sold goods costing Rs. 1,60,000 for Rs. 2,00,000 to X and received his acceptance payable after 3 months. Firm sent bill to his bank for collection. Bill was dishonored and noting charges paid Rs. 200.

AFTER DISHONOURED

Question.13 Assume after question 7 to 12 , Mr. X requested to pay Rs. 1,20,200 immediately and to give a new acceptance for the balance amount together with interest @ 12% p.a. payable after 2 months. On the due date bill was met.

Question.14 Assume after question 7 to 12, Mr. X requested to pay Rs. 1,20,200 immediately together with interest at the rate of 12% p.a. on the balance amount for 3 months and to accept a new bill for the balance amount. On the due date of renewed bill, Mr. X became insolvent and official receiver declared a first and final dividend of 60% of the amount due.

Renewal of Bill

Question:15 Mohan sold goods to Gupta on 1st September, 2005 for Rs. 1,600. Gupta immediately accepted a three months bill. One due date Gupta requested that the bill be renewed for a fresh period of two months. Mohan agrees provided interest at 9% was paid immediately in cash. To this Gupta was agreeable. The second bill was met on due date. Give Journal entries in the books of Mohan.

Under Rebate

Question:16 On 1stJanuary, 2006, A sells goods for Rs. 10,000 to B and draws a bill at three months for the amount. B accepts it and returns it to A. On 1st March, 2006, B retires his acceptance under rebate of 12% per annum. Record these transactions in the journals of A.

Question:17 On 1st April 2009 Rohit sold goods to Mahesh for Rs 10,000 and drew upon him a bill for the amount at 3 months. Mahesh accepted the bill . On 4th April 2009 , Rohit got the bill discounted with his bankers @ 10% per annum. Just before the due date , Mahesh approached Rohit with a request for renewal of the bill for 3 month . Rohit agreed on the conditions that new bill will be drawn for Rs 10310 which included Rs 310 by way of interest .Mahesh found the condition reasonable and accepted the new bill on 4th july ,2009 . On 29th September, 2009 Mahesh was declared insolvent . On 2nd November, 2009 a first and final dividend of 40 paise in a rupee was received from the insolvent 's receiver .

Question:18 On 1st January 2010, Arun purchased from Barun goods invoiced at Rs 10,000. On the same date Barun drew upon Arun a bill for the amount at 2 months and Arun accepted the same. On 4th January 2010 Barun got the bill discounted with his bank @ 12% per annum. On due date, Arun told Barun that he was not in a position to pay the full amount and requested Barun to accept Rs 5000 in cash and Drew a fresh bill at 2 months for the remaining amount plus interest at 15% P.A. Barun agreed . The second bill was duly met on the due date. Give journal entries to record the above transaction in the books of Barun.

MUTUAL ACCOMODATION (YE CONCEPT SIRF HUM HI SAMAJH SAKTE HAI, AUR KOI NAHI, FEEL GOOD)

Question:19. For helping Mr. X, Y gave his acceptance for Rs. 20,000 payable after 3 months. X discounted the bill with his bank @ 18% p.a. Just before due date X remitted the necessary amount to Y. On due date bill was met. Make journal entries.

Question:20. For mutual accommodation of X and Y, X drew a bill for Rs. 60,000, Which was duly accepted by Y. X discounted the bill with his bank @ 12% p.a. for 3 months and remitted 1/3rd of the proceeds to Y. Just before due date, X remitted the balance amount to Y and Y met the bill on due date. Make journal entries.

Question:21. Anil drew a bill for Rs. 20,000 on Sunil and Sunil drew a bill for Rs. 30,000 on Anil for mutual accommodation for 3 months. Both of them discounted their bill with bank @ 12% p.a. Just before due date they settled their account among themselves. On the due date, both met their bill.

Question.22(IMP Question) Bose and Mitra were in need of funds. On 1st May, 2014 Bose accepted Mitra's draft for Rs.6,000 at 3 months. Mitra got it discounted at 6%p.a. and remitted 1/3 of the proceeds to Bose. On the due date Mitra was not able to send the amount instead he accepted to Bose's bill for Rs. 4,500 at two months. Bose got it discounted for 4,420. Out of this Rs. 280 were sent to Mitra . Before the maturity of the renewed bill, Mitra became insolvent and only 60% was realized from his estate. Give Journal entries in the books of Bose and Mitra.

Question:23 Sohan drew an accommodation bill for Rs 12,000 on Mohan. The proceeds are to be shared by Sohan and Mohan in the ratio of 2:1 respectively. Mohan accepts the bill. Sohan gets the bill discounted at a discount of Rs 720 and remits 1/3rd of the proceeds to Mohan. Before the due date, Mohan draws an accommodation bill for Rs 16,800 to arranges the funds to pay the first bill. The second bill is discounted for Rs 16320. The first bill is paid with the proceeds and a sum of Rs 2880 is remitted to Sohan.

Sohan become insolvent before the due of the second bill and Mohan received 50 paise in a rupee as the first and final dividend from sohan's estate . Pass necessary journal entries in the books of Mohan and prepare sohan's account in the ledger of Mohan .

Question:24. On 1st December 2004 Shyam accepted for mutual accommodation a bill drawn on his by Ram for Rs 80000 at three month . The bill was discounted at 5% per annum and the proceeds were shared equally .On the same day and for the same purpose , Shyam received an acceptances from Ram for Rs 90000 at three months. The bill was discounted for Rs 1800 as discount and the proceeds were shared as to two thirds to Shyam and one third to Ram .On the due date Shyam met his acceptence , but Ram could not do so because he had become insolvent . On 31st march , 2005 his estate paid a first and final dividend of 50 paise in a rupee. Pass the journal entries for the transactions in the books of Shyam.

Answer: Journal entries in the books of shyam

Date	Particular	Dr	Cr
2004 Dec 1	Ram To Bills payable A/c	80000	 80000
Dec 1	Bill receivable A/c To Ram	90000	 90000
Dec 1	Bank A/c Discount A/c To bills receivable A/c	88200 1800	 90000
Dec 1	Ram To banks To discount A/c	30000	 30000
Dec1	Banks A/c Discount A/c To Ram	39500 500	 40000
2005 March 4`	Bills payable A/c To bank A/c (being our acceptances met on due date)	80000	 80000
Mar 4	Ram To banks A/c (being dishonour of ram 's acceptance due to insolvency)	90000	 90000
March 4	Bank A/c Bad-debts To Ram (being receipt of 50 paise in the rupee as dividend from Ram's estate)	35000 35000	 70000

Ram 's A/c

Particular	Amount	Particular	Amount
To bills payable A/c	80000	By bills receivable A/c	90000
To banks A/c	29400	By bank A/c	39500
To discount A/c	600	By discounts A/c	500
To bank A/c	90000	By banks A/c	35000
		By bad debts	35000
	2,00,000		2,00,000

Question:25 Mr. David draws two bills of exchange on 1.1.95 for Rs. 6,000 and Rs. 10,000. The bill of exchange for Rs. 6,000 is for two months while the bill of exchange for Rs. 10,000 is for three months. These bills are accepted by Mr. Thomas. On 4.3.95 Mr. Thomas requests Mr. David to renew the first bill with interest at 18% p.a. for a period of two months. Mr. David agrees to this proposal. On 20.3.95 Mr. Thomas retires the acceptance for Rs. 10,000, the interest rebate i.e. discount being Rs. 100. Before the due date of the renewed bill, Mr. Thomas became insolvent and only 50 paisa in a rupee could be recovered from his estate.

You are required to give the Journal entries in the books of Mr. David.

CHAPTER 6B. Sale of Goods on Approval or Return Basis

1. INTRODUCTION:- With a view of pushing up the sales or for introducing a new product in the market, goods are sometimes sent to the customers on sale or approval basis. Here, goods sent on 'approval' or 'on sale or return' basis mean the delivery of the goods to the customers with the option to retain or return them within a specified period. Generally, these transactions take place between a manufacturer (or a wholesaler) and a retailer, when a businessman wants to increase his sales volume or introduce a new product in the market. The goods are transferred from the seller to the customers under a sale or return basis. It implies a change in the possession of goods only and not a transfer of the ownership of goods. The ownership is passed only when the Customer gives his approval or if the goods are not returned within that specified period. The customer does not incur any liability when the goods are merely sent to him.

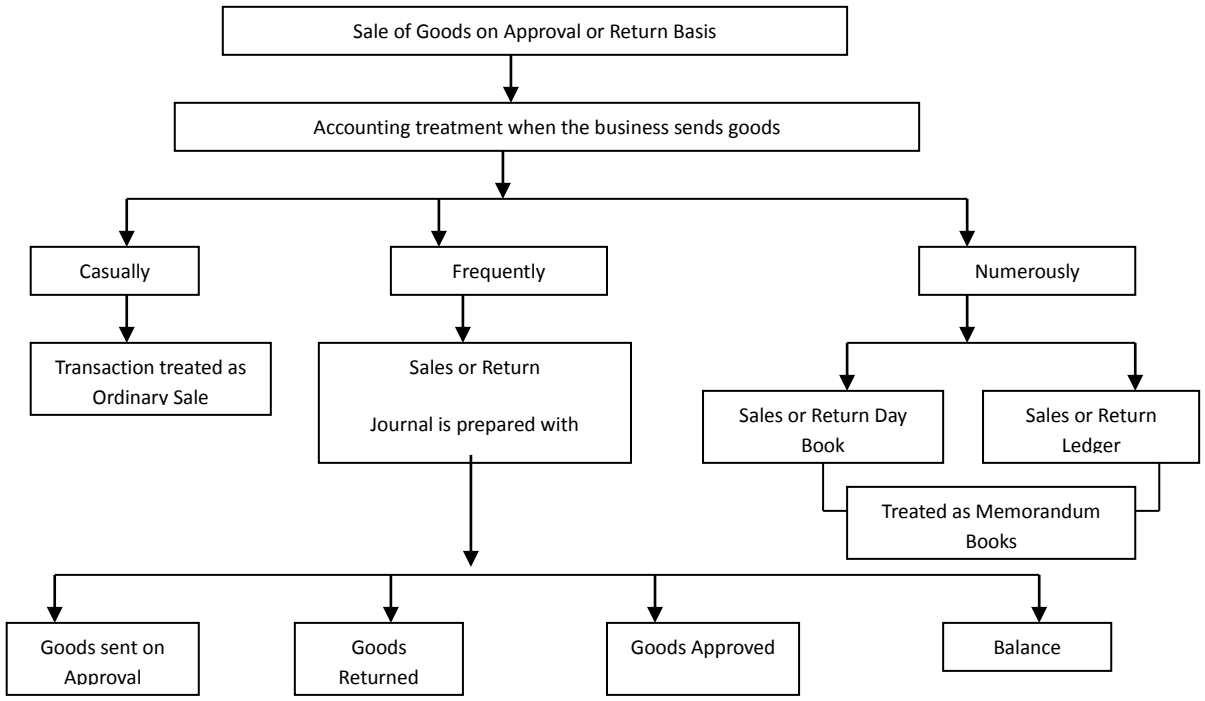
As per the definition **given under the Sale of Goods Act, 1930,** in respect of such goods, the sale will take place or the property in the goods pass to the buyer:

(i) When he signifies his approval or acceptance to the seller;

(ii) When he does some act adopting the transaction;

(iii) If he does not signify his approval or acceptance to the seller but retains the goods without giving notice of rejection, on the expiry of the specified time (if a time has been fixed) or on the expiry of a reasonable time (if no time has been fixed).

2. ACCOUNTING RECORDS:- Accounting entries depend on the fact whether the business sends goods on sale or approval basis (i) casually; (ii) frequently; and (iii) numerously. An overview of the accounting treatment for the goods sent on sale or approval basis can be depicted with the help of the chart given below :



2.1 WHEN THE BUSINESS SENDS GOODS CASUALLY ON SALES OR RETURN:-- When the transactions are few, the seller on sending the goods, treats them as an ordinary sale. If the goods are accepted or not returned or the business receives no intimation within the specified time limit, no extra entry is required to be passed because the transaction for sale or return becomes entry after the expiry of the specified period. If the goods are returned within a specified time limit, a reverse entry is passed to cancel the previous transaction. If, at the year-end, goods are still lying with the customers and the specified time limit is yet to expire, the entry for sales made earlier is cancelled and the value of the goods lying with the customers must be reduced from the selling price to the cost price, and treated as an ordinary stock for Balance Sheet purposes.

Journal Entries:

1. When goods are sent on approval or on sale or return basis

Sundry Debtors Account		Dr.	[Invoice price]
To Sales Account			

2. When goods are rejected or returned within the specified time

Sales/Return Inwards Account		Dr.	[Invoice price]
To Customers/Sundry Debtors Account			

3 When goods are accepted at invoice price--- [No entry]

4 When goods are accepted at a higher price than invoice price

Sundry Debtors Account	Dr.	
To Sales Account		[Difference in price]

5 When goods are accepted at a lower price than the invoice price

Sales Account	Dr.	
To Sundry Debtors Account		[Difference in price]

6 (i) At the year-end, when goods are lying with customers and the specified time limit is yet to expire

Sales Account	Dr.	[Invoice price]
To Sundry Debtors Account		

(ii) These goods should be considered as stock with customers and in addition to the above, the following adjustment entry is to be passed

Stock with Customers on Sale or Return Account	Dr.	
To Trading Account [Cost price or market price whichever is less]		

No entry is to be passed for goods returned by the customers on a subsequent date.

Question 1. CE sends goods to his customers on Sale or Return. The following transactions took place during 2019:

Sept. 15	Sent goods to customers on sale or return basis at cost plus 33 $^{1/3}$ %	Rs. 1,00,000
Oct. 20	Goods returned by customers	40,000
Nov. 25	Received letters of approval from customers	40,000
Dec .31	Goods with customers awaiting approval	20,000

CE records sale or return transactions as ordinary sales. You are required to pass the necessary Journal Entries in the books of CE assuming that accounting year closes on 31st December, 2019.

Question :2. S. Ltd. sends out its goods to dealers on Sale or Return. All such transactions are, however, treated as actual sales and are passed through the Day Book. Just before the end of the accounting year on 31.12.2019, 200 such goods have been sent to a dealer at Rs. 250 each (cost Rs. 200 each) on sale or return and debited to his account. Of these goods, on 31.12.2019, 50 were returned and 70 were sold, for the other goods date of return has not yet expired. Pass necessary adjustment entries on 31.12.2019.

Solution :In the books of S. Ltd. Journal

Date	Particulars			L.F	Dr. (in Rs.)	Cr. (in Rs.)
2019						
Dec. 31	Return Inwards A/c (Rs. 250 X 50) To Sundry Debtors A/c		Dr.		12,500	 12,500
Dec. 31	Sales A/c (Rs. 250 X 80) To Sundry Debtors A/c	Or.	Dr.		20,000	 20,000
Dec. 31	Stock with Customers on Sale or Return A/c To Trading A/c(Note 3)	Dr.	Dr		16,000	 16,000

Question 3. Caly Company sends out its gas containers to dealers on Sale or Return. All such transactions are however, treated as actual sales and are passed through the Day Book. Just before end of the financial year, 100 gas containers, which cost them Rs. 900 each have been sent to the dealer on sale or return' and have been debited to his account at Rs. 1,200 each. Out of this only 20 gas containers are sold at Rs. 1,500 each. You are required to pass necessary adjustment entries for the purpose of Profit and Loss Account and Balance Sheet.

Solution In the books of Caly Company Journal

Date	Particulars		L.F	Dr. (in Rs.)	Cr. (in Rs.)
	Sundry Debtors A/c To Sales A/c (Being the adjustment for excess price of 20 gas containers @ 300 each)	Dr.		6,000	 6,000
	Sales A/c To Sundry Debtors A/c (Being the cancellation of original entry for sale in respect of 80 gas containers @ Rs. 1200 each)	Dr.		96,000	 96,000
	Stock with Customers on Sale or Return A/c To Trading A/c (Being the adjustment for cost of 80 gas container lying with customers awaiting approval)	Dr		72,000	 72,000

Question 4 COC Education pvt. Ltd. sends out its accounting machines costing Rs. 200 each to their customers on Sales or Return. All such transactions are, however, treated like actual sales and are passed through the Day Book. Just before the end of the financial year, i.e., on December 24, 2019, 300 such accounting machines were sent out at an invoice price of Rs. 280 each, out of which only 90 accounting machines are accepted by the customers Rs. 250 each and as to the rest no report is forthcoming. Show the Journal Entries in the books of the company for the purpose of preparing Final Accounts for the year ended December 31, 2019.

Solution In the books of E Ltd. Journal

Date	Particulars		L.F	Dr. (in Rs.)	Cr. (in Rs.)
2019 Dec.31	Sales A/cs (30 X 90) To Sundry Debtors A/c (Being the adj. for reduction in the selling price of 90 accounting machines @ Rs. 30 each)	Dr.		2,700	2,700

Dec.31	Sales A/c (Rs. 280 x 210) To Sundry Debtor (Being the cancellation of original entry for sale in respect of 210 accounting machines sent to customers not yet returned or approved)	Dr.		58,800	58,800
	Stock with customers on Sale or Return A/c To Trading A/c (Being the cost of 210 accounting machines @ Rs. 200 each adjusted against Trading Account)	Dr		42,000	42,000

Question 5. A sends out goods on approval basis to few customers and includes the same in the sales account. On 31st march 2019, the trade receivables balance stood at Rs 1,00,000 which included Rs 7,000 goods sent on approval against which no intimation was received during the year. These goods were sent out at 25% over and above cost price and were sent to- Mr X Rs 4,000 and Mr Y Rs 3,000.Mr X sent intimation of acceptance on 30th April and Mr Y returned the goods on 10th April, 2019.

Make the adjustment entries and show how these items will appear in the Balance sheet on 31st March 2019. Show also the entries to be made during April 2019. Value of closing inventories as on 31st March 2019 was Rs 60,000.

Question 6. On 31st December, 2019 goods sold at a sale price of Rs. 3,000 were lying with customer, Ritu to whom these goods were sold on 'sale or return basis' and recorded as actual sales. Since no consent has been received from Ritu, you are required to pass adjustment entries presuming goods were sent on approval at a profit of cost plus 20%. Present market price is 10% less than the cost price.

2.2 WHEN THE BUSINESS SENDS GOODS FREQUENTLY ON SALE OR RETURN BASIS :- When goods are sent out on sale, on approval or return basis, an immediate sale obviously does not take place. Only when the customer signifies his intention to purchase the goods or takes some action whereby it is indicated that he has decided to purchase the goods, the property m the goods passes to the buyer. So long as the property does not pass to the buyer the seller should not record it as a sale and, therefore, should not debit the customer.

Where a large number of articles are sent out on a sale or return basis, it is necessary to maintain a specially ruled Sale or Return Journal / Day Book: This Day Book is divided into 4 main columns - (1) Goods sent on Approval; (2) Goods Returned: (3) Goods Approved; and (4) Balance.

Goods sent on approval				**Goods returned**				**Goods approved**				**Balance**
1	**2**	**3**	**4**	5	6	7	8	9	10	11	12	**13**
Date	**Particulars**	**Fol.**	Amt.	Date	Particulars	Fol.	Amt.	Dat	Particulars	Foi.	Amt.	**Amt.**

When such a Journal is kept the following procedure is adopted for recording transactions entered into on this basis.

When goods are sent out for sale on approval, entries are made only in column 1 to 4, the sale price of goods being entered in column 4. The sale price is also posted to the debit of the customers' account in 'Goods on Approval Ledger', and periodically total of column 4 is posted to the credit of Goods on Approval Total Account in the same ledger.

If goods are returned, entries are made in columns 5 to 8, the price of goods returned being entered to column 8. The individual amounts are credited to the Customers' Accounts, in the 'Goods on Approval' Ledger and the total of this column in periodically posted to the Total Goods on Approval Account.

If the goods are retained by the customer, entries are made in columns 9 to 12. The individual amounts are then posted to the debit of customer's accounts in the Sales Ledger and their total is credited to Sales Account in the General Ledger. Further the customer's accounts in the Goods on Approval Ledger are credited with the individual amounts of goods sold and periodically the total of the amount is posted to the debit of Goods on Approval Total Account.

The value of goods sent out but not sold or returned till the close of the year is extended to column 13. The total of this column, afterwards, will show the value of goods with customers at the sale price.

The balance amount is calculated as follows: Balance Value of Goods Sent on Sale or Return *Less* Value of Goods Returned *Less* Value of Goods Approved. Information relating to goods delivered and goods returned is kept on Memorandum basis. However, information relating to goods approved and balance is duly accounted for by passing journal entries relating to sales and stock on approval basis.

(i) At the time of approval

Customer's A/c
To Sales A/c

The amount, after eliminating the element of profit, is included in the Trading Account representing the value of stock with customers at cost price. Like an ordinary closing stock, such goods are considered as stock lying with customers on behalf of seller and are valued at cost or net realizable value whichever is less.

(ii) At the time of preparing of Final Accounts:-*An adjustment entry is required for balance goods which is as follow:*

Goods with Customers on Sale or Return Account Dr. [Cost or net realisable value
To Trading Account whichever is less]

2.3 WHEN THE BUSINESS SENDS GOODS NUMEROUSLY ON SALE OR RETURN:-- When transactions are numerous, a business maintains the following books: (a) Sale or Return Day Book; and (b) Sale or Return Ledger. Ledger contains the accounts of the customers and the 'Sale or Return' Total account. It is important to remember is that both are **Memorandum Books.**

In this case, when the goods are sent to the customers on a sale or return basis, they are recorded in the Sale or Return day Book. Thereafter, in the Sale or Return Ledger, all the customers are individually debited and the Sale or Return Account is credited with the periodical total of the Sale or Return Day Book.

When the goods are returned by the customers within the specified time, they are recorded initially in the Sale or Return Day Book. Thereafter, in the Sale or Return Ledger, the Sale or Return Account is debited with the periodical total of the Sale or Return Day Book and the individual customers are credited. The above mentioned records are all memorandum and hence cannot find a place in the regular books.

When the business receives information about the acceptance of the goods or no intimation **is** received within the specified time, they are recognized as sales and are recorded in the Sales Day Book. Periodically, the total of the Sales Day Book is credit to Sales Account and debited to the Individual Customers Account. To cancel the earlier entries, individual customers are credited and the Sale or Return Account is debited. The entries for the approved goods are shown below:

In the Memorandum Sale or Return Ledger	In the regular General ledger	
Sale or Return Account . Dr. To Individual customer's Account	Individual Customer's Account To Sales Account	Dr.

At the year end, in the Sale or return Ledger, the sum of the debit balances of the Individual Customers' Account must be equal to the credit balance of the Sale or return Account. It represents stock with customers waiting for approval at invoice price. To adjust the cost of such goods with customers in the Final Accounts, the following entry is passed:

Stock with Customers on Sale or Return Account Dr. [Cost or net realisable value,
To Trading Account whichever is less]

SELF EXAMINATION QUESTIONS:

1. When a large number of articles are sent on a sale or return basis, it is necessary to maintain
   (a) Sale journal (b) Goods returned journal
   (c) Sale or return journal (d) None of the above.

2. On 31st December, 2019 goods sold at a sale price of Rs. 30,000 were lying with customer, Mohan to whom these goods were sold on 'sale or return basis' and recorded as actual sales. Since no consent was received from Mohan, the adjustment entry was made presuming goods were sent on approval at a profit of cost plus 20%. in the balance sheet, the stock with customers account will be shown at Rs.
   (a) 30,000. (b) 24,000. (c) 20,000. (d) 25,000.

3. A sent some goods costing Rs. 3,500 at a profit of 25% on sale to B on sale or return basis. B returned goods costing Rs. 800. At the end of the accounting period i.e. on 31st December,2019, the remaining goods were neither returned nor were approved by him. The stock on approval will be shown in the balance sheet at Rs.
   (a) 2,000. (b) 2,700. (c) 2,700 less 25% of 2,700. (d) 3,500.

4. A merchant sends out his goods casually to his dealers on approval basis. All such transactions are, however, recorded as actual sales and are passed through the sales book. On 31-12-2013, it was found that 100 articles at a sale price of 200 each sent on approval basis were recorded as actual sales at that price. The sale price was made at cost *plus* 25%. The amount of stock on approval will be amounting
   (a) Rs.16, 000. (b) Rs. 20,000. (c) Rs. 15,000. (d) None of the above.

6. A company sends its cars to dealers on 'sale or return' basis. All such transactions are however treated like actual sales and are passed through the sales day book. Just before the end of the financial year, two cars which had cost Rs. 55,000 each have been sent on 'sale or return' and have been debited to customers at Rs. 75,000 each, cost of goods lying with the customers will be
   (a) Rs. 1, 10,000. (b) Rs. 55,000. (c) Rs. 75,000. (d) None of the above.

7. A trader has credited certain items of sales on approval aggregating Rs. 60,000 to Sales Account. Of these, goods of the value of Rs. 16,000 have been returned and taken into stock at cost of Rs. 8,000. Though the record of return was omitted in the accounts. In respect of another parcel of Rs. 12,000 (cost being Rs. 6,000) the period of approval did not expire on the closing date. Cost of goods lying with customers should be
   (a) Rs. 12,000. (b) Rs. 54,000. (c) Rs. 6,000. (d) None of the above.

8. Under sales on return or approval basis, the ownership of goods is passed only
   (a) when the retailer gives his approval
   (b) if the goods are not returned within specified period.
   (c) Both (a) and (b) (d) None of the above

9. Under sales on return or approval basis, when transactions are few, the seller, while sending the goods, treats them as
   (a) An ordinary sale but no entry is passed in the books
   (b) An ordinary sale and entry for normal sale is passed in the books
   (c) Approval sale and no entry is passed
   (d) None of the above

10. Under sales on return or approval basis, when transactions are few and the seller at the end of the accounting year reverse the sale entry, then what will be the accounting treatment for the goods returned by the customers on a subsequent date?

(a) No entry will be passed for such return of goods
(b) Entry for return of goods is passed by the seller
(c) Only the stock account will be adjusted
(d) None of the above

11. Which of the following is not a main column of sales or return journal?

(a) Goods sent on approval column (b) goods returned column

(c) Goods approved column (d) purchase column

12. Sale or Return Day Book and Sale or Return Ledger are known as

(a) principal books (b) subsidiary books

(c) Memorandum books (d) none of the above

13. In the Sale or Return Ledger

(a) All the customers are individually debited and the sale or return account is credited with the periodical total of the Sale or Return Day Book.
(b) All the customers are debited in total and the sale or return account is credited with the periodical total of the Sale or Return Day Book.
(c) All the customers are individually debited and the sale or return account is also credited with the individual total of the Sale or Return Day Book.
(d) None of the above.

14. When the goods are returned by the customers within the specified time, they are recorded

(a) Initially in the Sale or Return Ledger. Thereafter, in the Sale or Return Day Book
(b) Initially in the Sale or Return Day Book. Thereafter, in the Sale or Return Ledger
(c) only in the Sale or Return Day Book
(d) only in the Sale or Return Ledger

ANSWERS

1.(c) 2.(d) 3.(b) 4.(a) 6.(a) 7.(c) 8.(c) 9.(b) 10.(a) 11.(d) 12.(c) 13.(a)

14.(b)

CHAPTER 6C. CONSIGNMENT ACCOUNT

Consignment Sale:- Where one person in firm sends goods to another person or firm on the basis that the goods will be sold on and at the risk of the former, it is called consignment sale.
The party who sends the goods is called consignor and the party to whom goods are sent is called consignee or agent.
The consignee does not buy these goods but merely undertake to sell them on behalf of the consignor.
The sale proceeds belong to the consignor and the consignee merely gets the agreed commission for his service in addition to any expenses he might have incurred.
The relationship between the consignor and the consignee is that of principal and agent.

Account Sales:-After sale of goods, consignee sends a statement to consignor. This statement is called account sales. In this statement gross value, expenses and commission of consignee, advance paid by consignee and net amount due by consignee are shown.

Types of commission

1. **Del – Credere Commission--** The additional commission for which the consignee guarantees debt is called del-credere commission. This commission save consignor from loss of bad debts only.
The agent is responsible for bad debts due but not for loss due to a dispute between the buyer and the seller. The del-credere commission is payable on total sales and not merely on credit sales.

2. Ordinary Commission :-- Ordinary commission is a commission which consignee gets as his remuneration from the consignor for the sales made on behalf of the consignor. In this case the consignee does not guarantee that all those who buy on credit will pay up. The consignee is not responsible for bad debts.

3. Over ridding commission. It is allowed to increase sales volume/ sales price. It is calculated as per instruction given in question.

Most important -- Discount paid on bills receivable discounted by Consignor
There are two alternative treatments for the aforesaid discount:
If discount is treated as "consignment expenses" it is debited to consignment account
If discount is treated as "financial charges', it is debited to profit and loss account.

Books of consignor: To know the profit and the loss made on a consignment separately a consignment account is opened.
A consignment account is not a personal account but is in the nature of a special type of a trading and profit and loss account which show profit or loss made on the particular consignment.
If goods are consigned to a number of parties, the profit and loss on consignment to each consignee may be ascertained separately.

Valuation of Closing Stock:- The goods lying unsold with the Consignee at the end of the accounting year is usually valued at cost. In this case cost means, cost at which goods sent on consignment plus all non-recurring (non-selling) expenses incurred till the goods reach the premises of the consignee.
Such expenses include packing freight, cartage, insurance in transit, octroi, import duty, customs charges, packing, loading & unloading charges.
But expenses incurred after the goods have reached the consignee godown are not treated as part of the cost of purchase for valuing stock on hand, i.e. expenses like godown rent, godown insurance, sales expenses e.t.c. are not included in the value of stock.

➢ **(imp) Distinction between Consignment and sale**

Consignment	Sale
• Ownership of goods is not transferred to consignee. • Consignee is not liable for losses. • All expenses are born by consignor. • The document sent along with goods sent to consignee is called 'Performa invoice". • Consignee does not become debtor on receipt of goods. He becomes debtor on sale of goods. • Consignee receives commission on sale of goods.	• Ownership of goods is transferred to the buyer. • Buyer is liable for losses. • Buyer meets his own expenses. • The document sent on sale of goods is called 'Invoice'. • Buyer becomes debtor immediately on receipt of goods. • Buyer does not receive any commission. He earns profit on sale of goods.

Distinction between Abnormal Loss And Normal Loss

Abnormal Loss	Normal Loss
• Abnormal loss occurs due to accident natural calamities or negligence. • This loss does not affect Gross Profit. • Accounting entry is made for such loss. • This loss can be insured against various contingencies. • This loss is not certain. This depends on the happening of certain event.	• Normal loss occurs due to inherent characteristic of goods, e.g. normal leakage, evaporation etc. • This loss effect Gross Profit. • No accounting entry is made for such loss. This is automatically absorbed in Gross profit. • This loss can not be insured. • This loss is almost certain. This occurs during transit or storage due to inherent characteristic of goods.

Question.1 20,000 units of commodity 'X' were consigned by Ram of Delhi at an invoice cost of Rs 100 each to Mohan of Mumbai. Ram paid freight Rs 12,000, Insurance Rs 8000.
Mohan received the consignment and incurred the following expenses:-

Clearing charges	=	Rs. 5,000
Freight to the godown	=	Rs. 7,000
Rent of godown	=	Rs. 3,000
Insurance	=	Rs. 2,000
Advertisement	=	Rs. 12,000
Loading and unloading charges	=	Rs. 3,000

Mohan sold all the goods @ Rs. 250 each.
He was entitled to a commission of 5% on sales.
Prepare consignment account and Mohan account in the book of Ram.

Question.2 Assume in Question No. 1, Mohan sold only 80% of the consignment @ Rs. 250 each.
Prepare necessary ledgers in the books of Ram.

Question.3 X sends goods costing Rs. 2,00,000 to Y to be sold at a minimum profit of 10% on cost. He will be allowed a general commission of 5% on sales and 25% of any excess realized over minimum quoted price.
Y sold all the consignment for Rs. 3,00,000.
Calculate the total commission payable to Mr. Y.

Question.4 IOCM of Delhi forwarded to TATA of Mumbai a consignment of 100 drums of coconut Oil of Rs. 500 per drums. Following expenses were incurred by consignor.

Freight	=	Rs. 10,000
Insurance	=	Rs. 8,000
Loading charges	=	Rs. 2,000
Rent of consignee'godown	=	Rs. 3,000

TATA received the consignment and sent an **account sale** informing that he sold 80% of the consignment @ Rs. 1000 per drum and incurred following expenses

Clearing charges	=	Rs. 2,000
Freight	=	Rs. 3,000
Advertisement	=	Rs, 20,000

Consignee was entitled to 5% as general commission and 2% as del- Credere commission. Actual loss due to bad debts was Rs 8500.
Prepare consignment account and consignee account in the book of IOCM.

Question.5 10,000 Pens were sent by Rohit of Delhi to Mohit of Mumbai costing Rs. 20 each. Rohit incurred Rs. 5,000 on sending the goods to Mohit place.
Mohit received the consignment and incurred Rs. 10,000 as recurring and Rs. 5,000 as non-recurring expense. He reported that 70% of the consignments were sold @ Rs. 60 each and 10% of the consignment were lost due to fire. He was entitled to commission @ 5%. Prepare consignment A/c and Mohit A/c in book of Rohit.

Question.6 5,000 units of commodity X were consigned by Mohanlal to Sohanlal @ Rs. 40 each. Mohanlal incurred Rs. 20,000 on sending the goods to consignee. During transit 10% of the consignments were lost due to fire. Insurance company admitted the claim for Rs. 12,000. Sohanlal received the remaining consignment and sent an account sale showing that 70% of goods received were sold @ Rs. 100 each.

He incurred Rs. 20,000 as selling and Rs. 8,000 as non-selling expenses. He was entitled to commission @ 5%.
Prepare consignment Account and Sohanlal Account in the book of Mohanlal.

Question. 7 M/s Lal sent 4000 Kg of coconut oil costing Rs. 20 each to M/s Hara, Paid Freight Rs. 6000 and Loading charges Rs. 4000. M/s Hara received the consignment and incurred Rs. 4000 as recurring and Rs. 6000 as non-recurring expenses. He reported a normal loss of 5% and he sold 80% of the consignment @ Rs. 50 each.

He was entitled to commission of 2% on sale. Prepare consignment A/c.

Question.8 (advance against security) The Narang oil mills, Delhi consigned 5000 Kg of mustered oil to Mr. Gupta of Kanpur on 1st Jan. 2016. The cost of the oil was Rs. 40 per kg. The Narang mills paid Rs. 15,000 for packing fright and insurance. During transit 100 kg were destroyed for which insurance Co. paid directly to the consignor Rs. 4000 in full settlement of the claim. Narang oil mills had received Rs 50,000 in advance as security against consignment.

Mr. Gupta took delivery of the consignment on the 15 Jan. On 31st March 2016, Mr Gupta sent account sales that 4000 Kg were sold at Rs.52, the expenses being on godown rent Rs.2000; on advertisement Rs.3000 and on salesman salaries Rs.5500. Mr. Gupta is entitled to a commission of 4 % plus 2% del-credere . A party, who had bought 400 Kg, was able to pay only 90% of the amount due from it. Mr Gupta reported a loss of 50 Kg due to leakage. Assuming that Mr. Gupta paid the amount due by bank draft. Show the journal entries and necessary ledger account in the books of both the parties .The Narang oil mills Ltd closes books on 31st March.

Question. 9 X Consigned 10,000 liters of Oil costing Rs 20 each to Y of Mumbai, incurring Rs. 5000 as non-recurring expense. During transit 10% of consignment were lost due to fire and insurance company Paid Rs. 20,000 to X in full settlement of claim.
Y received the consignment and incurred Rs. 30,000 as recurring and Rs. 10,000 as non-recurring expense. He sold 70% of the consignment received at 100% profit on cost. He also reported a further loss of 10% due to fire in his godown and 5% due to normal leakage.
He was allowed a commission of 2% on sales. Y used 5 liters of Oil for his personal purpose at an agreed price of Rs. 35 per litre. Prepare consignment A/c and Y A/c in the book of X.

Question.10 Assume in Question No.5 goods were sent at an invoice price of 25% on cost.
Prepare necessary accounts in the book of consignor.

Question. 11 Sarika mills Ltd. of Delhi sent 500 pieces of shirt to fancy store, Bombay on consignment basis. The consignee is entitled to receive 5% commission plus expenses. The cost to Sarika mills Ltd. is Rs. 120 per piece.

Fancy store, Bombay, pay the following expenses:
Railway freight, etc - Rs. 1,000
Godown rent and insurance - Rs. 1,500
Sarika mills Ltd., draw on the consignees a draft for Rs.30,000 which is duly accepted. It is discounted for Rs.28,650. Later fancy store Bombay, report that the entire consignment has been sold for Rs.78,000.
Show journal entries and important ledger accounts in the books of consignor & consignee.
Answer:

Consignment (To Bombay) Account

Particular	Amount	Particular	Amount
To goods sent to consignment	60000	By fancy store Bombay – Sale	78000
To fancy store (Bombay) expense	2500		
To Fancy store (Bombay)-Commission	3900		
To Profit & Loss A/c	11600		
	78000		**78000**

Fancy Store (Bombay) Account

Particular	Amount	Particular	Amount
To Consignment A/C		By Bill receivable A/C	30000
-Sale proceeds	78000	By Consignment A C(exp.)	2500
		By Consignment A/c (Commission)	3900
		By Balance c/d	41600
	78000		**78000**

Question.12 100 Television were consigned by M/s Lal & Com. Delhi to M/s Time center of Patna at an invoice cost of Rs.3000 each M/s Lal & Com. paid freight Rs.18000, insurance Rs.2200. During the transit, 10 T.V were totally damaged by fire and to be thrown in a way. M/s Time center took delivery of the remaining T. V.

M/s Time center had sent a bank draft to Lal & Company for Rs. 100000 as an advance payment and later sent an account sales showing that 80 T.V. were sold at Rs.4400 each. Expenses incurred by Time centre on godown rent and advertisement etc, amounted to Rs. 12,000. Time center is entitled to commission of 5%. One of the credit customers could not pay for 2 T.V. Record the journal entries and prepare the consignment A/C, M/s Time center Account and Profit & Loss A/C in the books of M/s Lal & Co assuming that nothing has been recovered from the insurance Co. due to a defect in the policy. M/s Time center settle his account immediately.

Answer:

Consignment to Patna A/c

Particular	Amount	Particular	Amount
To Goods sent on consignment	3,00,000	By Time center (Patna) A/C	
To bank Account:		—Sales	3,52,000
Freight- 18000		By Abnormal loss A/C	32,020
Insurance- 2200	20,200	(Loss by fire)	
To Time center (Patna) A/C		By Stock on consignment	32,020
--Godown rent & Adv.	12,000		
--Commission	17,600		
--Bad debts (2 x 4400)	8800		
To Profit & Loss A/C (profit)	57,440		
	416040		416040

Time Centre (Patna) Account

Particulars	**Amount**	**Particulars**	**Amount**
To Consignment to Patna A/c	3,52,000	By Bank (Bank draft as advanced)	1,00,000
To Balance c/d (Amount of advance relating to 10 T.V)	10,000	By Consignment to Patna A/c Godown rent and	
		advertisement -12000	20,800
		Bad debts - 8800	
		By Consignment to Patna (Comm.)	17,600
		By Bank	2,23,600
	3,62,000		3,62,000

Abnormal Loss Account

Particulars	Amount	Particulars	Amount
To Consignment to Patna A/C (Loss by Fire)	32020	By Profit & Loss A/C –Transfer	32020
	32020		32020

Working Notes

Abnormal Loss

Particulars	Quantity	Rs.	Working
Cost of goods sent on consignment @3000 Non recurring expense paid by Consignor	100	300000 20200	
	100	320200	
Cost of abnormal loss 10 units	10	32020	(320200/100*10)
	90	288180	
Non recurring expense paid by Consignee	------	NIL	
	90	288180	
CLOSING STOCK(10 UNITS)	10	32020	(288180/90*10)

Question.13 Imperial Ltd., Delhi forwarded on 1st December 2002, 100 Bicycles to Mr. Manak of Ranchi to be sold on behalf of Imperial Ltd. The cost of one Bicycle was Rs.1600 but the invoice price was Rs. 1800. Imperial Ltd. incurred Rs. 10,000 on freight and insurance. Manak received the consignment on 15th Dec 2002 and accepted a 3 months draft drawn upon him by Imperial Ltd. for 40,000, Manak paid Rs.2500 as rent and Rs.2500 as insurance and by 31st march had disposed of 80 bicycles at Rs.2060 each. Manak is entitled to a commission of 5% on sales including a del-credere commission of 1%. Manak sold 20 bicycles on credit and was not able to recover sale proceeds of 2 bicycles because of insolvency of the debtor. Give Ledger accounts in the books of imperial Ltd. who closes their accounts on 31st March.

Answer:

Consignment to Ranchi Account

Date	Particulars	Amt.	Date	Particulars	Amt.
2002 Dec-1	To Goods sent on Consignment (invoice value)	180000	2002 Mar-31	By Manak (Sale Proceed) By Goods sent on	1,64,800
Dec. 1 2003	To Bank- Freight & Insurance	10000		Consignment A/c -(Loading)	20,000
Mar -31	To Manak: -Rent 2500 -Insurance- 2500 To Manak- (commission)	5000 8240		By Consignment stock	38,000
Mar. 31	To Consignment Stock Reserve. A/c To P & Loss A/c-trf of profit	4000 15560			
		222800			222800

Goods Sent on Consignment Account

Date	Particulars	Amount	Date	Particulars	Amount
2002 Mar-31	To consignment to Ranchi Account (difference between invoice value and cost)	20,000	2002 Dec-1	By consignment to Ranchi Account (invoice value)	1,80,000
	To trading A/C / Purchases A/c	1,60,000			
		1,80,000			1,80,000

Consignment Stock Account

Date	Particulars	Amount	Date	Particulars	Amount
2002			2002		
Mar-31	To Consignment to Ranchi A/c	38000	Mar-31	By Balance c/d	38000
	Total	38000		Total	38000

Manak Account

Date	Particulars	Amount	Date	Particulars	Amount
2003			2002		
Mar-31	To Consignment to Ranchi Account (Sale proceeds)	164800	Dec- 15 2003	By Bill receivable A/C	40000
			Mar-31	By Consignment to Ranchi A/C (exp.)	5000
			Mar-31	By Consignment to Ranchi A/C (commission)	8240
			Mar-31	By Balance c/d	1,11,560
		164800			164800

Working Notes **Closing stock**

Particulars	Quantity	Rs.	Working
Cost of goods sent on consignment @1600 Non recurring expense paid by Consignor	100	160000 10000	
	100	170000	
Non recurring expense paid by Consignee	------	NIL	
	100	170000	
CLOSING STOCK(20 UNITS) At COST PRICE	20	34000	(170000/100*20)
Load on 20 units @200 each		4000	
		38000	At I.P

Question.14 (Over-ridding commission) Ajay sends goods on consignment to Arun. The terms are that Arun will receive 10% commission on the invoice price (which is cost plus 25%) and 20% of any price realised above invoice price. Arun will meet his expenses himself, goods to be sent freight paid.

Ajay sent goods whose cost was Rs. 16,000 and spent Rs.1500 on freight, forwarding etc. Arun accepted a bill for Rs. 16,000 immediately on receiving the consignment. His expenses were Rs.200 as rent and Rs 100 as insurance. Arun sold 3/4th of the goods for Rs. 19500. Part of the sales was on credit and one customer failed to pay Rs. 400. Prepare consignment Account and Arun's account in the books of Ajay and Ajay's Account in the books of Arun.

Answer: **Consignment A/C**

PARTICULAR	**AMOUNT**	**PARTICULAR**	**AMOUNT**
To Goods sent On Consignment	20000	By Arun's A/c	19500
To bank(freight)	1500	By goods sent on consignment (load)	4000
To Arun's A/c		By closing Stock	4375
Bad debts - 400	400		
To Arun's A/c (comm)	2400		
To profit on consignment	3575		
	27875		27875

Arun's A/c

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
To consignment (S ales)	19500	By Bill Receivable	16000
		By Consignment A/c (Exp.)	400
		By Consignment A/c (comm.)	2400
		By bank (bal. fig.)	700
	19500		19500

Working Notes: **Closing stock**

Particulars	Rs.	working
Cost of goods sent on consignment Non recurring expense paid by Consignor	16000 1500	
	17500	
Non recurring expense paid by Consignee	NIL	
	17500	
CLOSING STOCK(1/4) At COST PRICE	4375	(17500*1/4)

Question.15 (concept building question) On 20 Jan 2002 M/s. Mohan Brothers of Mumbai forwarded to Ramesh of Lucknow a consignment of 25 drums of coconut oil of Rs. 510 per dram. They paid Rs. 150 on freight on 18th March 2002. Consignor received an account sales, on 31st March showing that goods had realised Rs 15000 gross including Rs. 5000 sold on credit and that following expenses had been incurred. Octroi and insurance—Rs.100: Storage Rs. 30; Cartage Rs.25: Freight on sales Rs.95; Commission @ 3% and del-credere commission 2%.

One customer owing Rs. 200 failed to pay because of insolvency and another customer deducted Rs.150 because of dispute regarding quality. Ramesh sent a bill of exchange for the balance due. Prepare necessary accounts in the books of consignor and consignee. Also show net profit/net loss of consignee.

Answe **Consignment A/c**

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
To Goods Sent On Consignment (25 x 510)	12750	By Ramesh 's A/c	15000
To bank (Freight)	150		
By Ramesh 's A/c			
Octroi - 100			
Storage – 30			
Contage - 25			
Freight - 95			
Discount -150	400		
To Ramesh's A/c (comm.)	750		
To profit on consignment	950		
	15000		15000

Ramesh's A/c

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
To consignment A/c (S ales)	15000	By Consignment A/c (Exp.)	400
		By Consignment A/c (comm.)	750
		By Bill Receivable (Bal. fig)	13850
	15000		15000

Question. 16 (imp question) Vikram Milk Food s Co. Ltd. of Vikrampur sent to Sunder stores, sonepuri 5000 kg of baby food packed in 2000 tins of net weight of 1 Kg and 6000 packets of net weight of 1/2 kg for sale on consignment basis. The consignee's commission was fixed at 5% of sales proceeds. The cost price and selling price of the product were as under.

	1kg tin	½ kg pack
Cost Price	Rs. 10	Rs. 6
Selling Price	Rs. 15	Rs. 7

The consignment was booked on freight 'to pay' basis and freight charges come to 2% of selling value. One case containing 50, 1kg tin was lost in transit and the transport carrier admitted a claim of Rs. 450.

At the end of the first half year the following information is gathered from the 'Account Sales' sent by the consignee:

(i) Sale proceeds 1500 1 kg tin
4000 ½ kg packets

(ii) Store Rent and insurance charges Rs. 600.

Show the Consignment A/c and Consignee's Account in the books of Vikram Milk Food Co. Ltd,. Assuming that the consignee had paid the amount due form Delhi. **[Ans. Profit on consignment : 7,365]**

Question .17 Sanjay consigned 40 machines to Ram on 1st Jan 2002 on the following terms:-

All machines were to be sold 20% above cost of Rs. 10000. Any deficit in selling price is to be borne by Ram while Ram is to retain 50 % of any surplus price realised,

Ram is to be paid 3% commission and 2% Del credere commission on all sales. Sanjay incurred freight charges of Rs. 40000 in consigning the machines. Ram sent account sale on 31st December 2002 disclosing:

10 machines sold for Rs. 12000 each
5 machines sold for Rs. 10000 each
15 machines sold for Rs. 14000 each.

Ram had incurred unloading charges of Rs. 4000 and selling expenses of Rs. 6000. He had collected the entire sale proceeds except Rs. 2000 which had become a bad debt. Ram sent a bank draft for the net amount due to Sanjay.

On 30 June 2003 Ram sent a further account Sale disclosing:

10 machines sold at Rs. 12000 each, selling expenses were Rs. 1500. He also sent a draft for the net amount due. Sanjay closes his books on 31st December each year. Write up the ledger accounts in the books of Sanjay recording the above transactions.

Question. 18 (concept building question) The Cochin Consignment Account in the books of Ranaji of Mumbai showed a debit balance of Rs. 1500 representing the cost of 10 fans on 1st Jan. 2016. The invoice value of each fan was Rs. 175. On 1st March 2016, Ranaji sent a further consignment to cochin of 40 fans costing Rs.160 each invoiced proforma at Rs. 180 each. The freight and other charges amounted to Rs. 210. On 1st June 2016, Cochin agent sent an account sales showing that 8 fans from the old stock realised Rs. 140 each and 25 fans from the second consignment realised Rs. 200 each and 15 fans remained in stock unsold. Two fans from the old stock being unsaleable at Cochin, were returned to Mumbai, for which the Cochin agent spent Rs. 30.

The Cochin agent is entitled to a selling commission of 10%, which cover all out of pocket expenses in respect of consignment. Show necessary accounts in the books of consignors, supposing he closes his books on 30 June

Question. 19 Mr. Y consigned 800 pockets of tooth- paste, each pocket containing 100 tooth pastes. Cost price of each pocket was Rs.900. Mr. Y spent Rs. 100 per packet as cartage, freight, insurance and forwarding charges. One packet was lost in the way and Mr. Y lodged claim with the insurance company and could get Rs 570 as claim on average basis. Consignee took delivery of the rest of the packets and spent Rs.39,950 as other non -recurring expenses and Rs. 22,500 as recurring expenses. He sold 740 packets at the rate of Rs. 12 per toothpaste. He was entitled to 2% commission on sales plus 1 % del-credere commission.

You are required to prepare consignment Account. Calculate the cost of Stock at the end. Abnormal loss and profit & loss on consignment

Answer: **Consignment Account**

To Good sent on consignment A/c (800 x Rs. 900)	7,20,000	By Consignee's Account (sales: 740 x 100 x Rs. 12)	8,88,000
To cash Account (Exp: 800 x Rs. 100)	80,000	By Abnormal Loss A/c	1000
To Consignee's A/c Recurring expenses 22,500 Non-recurring Expenses 39,950	62450	By Consignment Stock A/c	61,950
To Consignee's A/c Commission @ 2% 17,760 Del Credere commission@ 1% 8,880	26640		
To Profit on consignment	61,860		

Consignee's A/c

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
To consignment A/c (S ales)	888000	By Consignment A/c (Exp.)	62450
		By Consignment A/c (comm.)	26640
		By bank (bal. fig.)	798910
	888000		888000

Abnormal Loss A/c

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
To consignment A/c	1000	By bank	570
		By profit & loss A/c (bal. fig.)	430
	1000		1000

Working Notes

Abnormal Loss

Particulars	Quantity	Rs.	Working
Cost of goods sent on consignment @900 Non recurring expense paid by Consignor	800	720000 80000	
	800	800000	
Cost of abnormal loss one packet	1	1000	(800000/800*1)
	799	799000	
Non recurring expense paid by Consignee	------	39950	
	799	838950	
CLOSING STOCK 59 units	59	61950	(838950/799*59)

Question. 20 X of Calcutta on 15th January 2017 sent to Y of Mumbai a Consignment of 250 television costing Rs. 10,000 each. Expenses of Rs. 7,000 were met by the consigner. Y of Mumbai spent Rs. 4,500 for clearance on 30th January, 2017 and the selling expenses were Rs. 500 per television as and when the sale made by Y.

Y sold on 4th march, 2017 150 television at Rs. 14,000 per T.V and again on 10th April, 2017, 75 T.V at Rs. 14,400

Mr. Y was entitled to a commission of Rs. 500 per T.V sold plus one–fourth of the amount by which the gross sale proceeds less total commission thereon exceeded a sum calculated at the rate of Rs. 12,500 per T.V Sold. Y Sent the account sale and the amount due to X on 30th April, 2017 by Bank demand draft.

You are required to show the consignment account and Y's account in the books of X.

Question. 21 Ramesh consigned 2,000 MT of chemicals at a cost of Rs. 800 per MT to John. Ramesh paid freight and insurance charges of Rs. 20,000. Of the above 500 MT of chemicals were destroyed by fire during transit. John cleared the balance of 1,500 MT of chemicals and sold 1,000 MT at average price of Rs. 1,000 per MT. John incurred the following expenses: Godown rent Rs. 5,000, Insurance Rs. 3,000. Clearing charges Rs. 4,500. Insurance claim received against fire Rs. 4,00,000 after admitting the salvage value of stock destroyed by fire at Rs. 10,000. John was entitled to a commission of 10%on sales proceeds. John sends the balance to Ramesh after adjusting his commission and expenses out of the sales proceeds. Prepare a Consignment Account and John's Account in the books of Ramesh.

Question. 22 X of Delhi purchased 10,000 meters of cloth for Rs. 2,00,000 of which 5,000 meters were sent on consignment to Y of Agra at the selling price of Rs.30 per meter. X paid Rs. 5,000 for freight ad Rs. 500 for packing etc. Y sold 4,000 mtrs at Rs. 40/meter and incurred Rs.2,000 for selling expenses. Y is entitled to a commission of 5% on total sale proceeds plus a further 20% on any surplus price realized over Rs. 30 per meter.

3000 meters were sold at Delhi at Rs. 30 per meter less Rs 3,000 for expenses and commission. Owning to fall in market price, the stock of cloth in hand is to be reduced by 10%.

Prepare the Consignment Account and trading and Profit & Loss account in books of X and his account in the books of Y.

Hint:

(1)	Calculation of Commission payable to Y	Rs.
	Total Sales proceeds of Y	1,60,000
	Surplus proceeds realized over Rs. 30 per meter [4000 x (Rs. 40 – 30)]	40,000
	Commission :-	
	5% of total sales proceeds (5% of Rs. 1,60,000)	8,000
	20% of surplus (20% of Rs. 40,000)	8,000
		16,000

Question. 23 A of Agra sent on consignment goods valued Rs. 1,00,000 to B of Mumbai on 1st March, 1999. He incurred in expenditure of Rs 12,000 on freight and insurance. A's accounting year closes on 31st December. B was entitled to a commission of 5% on gross sales plus a del-credere commission of 3%. B took delivery of the consignment by incurring expenses of Rs. 3,000 for goods consigned.

On 31.12.1999, B informed on Phone that he had sold all the goods for Rs. 1,50,000 by incurring selling expenses of Rs. 2,000. He further informed that only Rs. 1,48,000 had been realized and rest was considered irrecoverable, and would be sending the cheque in a day or so for the amount due along with the account sale.

On 5.1.2000, A received the cheque for the amount due from B and incurred bank charges of Rs.260 for collecting the cheque. The amount was credited by the Bank on 9.1.2000.

Write up the Consignment Account finding out the Profit / loss on the consignment, B's A/c. Provision for expenses A/c and Bank Accounts in the books of the consignor, recording the transactions upto the receipt and collection of the cheque.

Answer: **Books of Mr. A**

Consignment Account

1999		Rs.	1999	Rs.	
Mar-1	To Goods sent on consignment A/c	1,00,000	Dec.31	By B's account	1,50,000
Dec-31	To Cash Account (Freight and Ins.)	12,000			
	To B's Account:				
	Clearance expenses 3,000				
	Commission @ 5%				
	On Rs. 1,50,000 7,500				
	Selling expenses 2,000				
	Commission @ 3%				
	on Rs. 1,50,000 4,500	17,000			
	To Prov. for exp. (Bank charges)	260			
	To Profit and Loss A/c				
	(Profit on consignment)	20,740			
		1,50,000			1,50,000

B's Account

1999		Rs.	1999		Rs.
Dec-31	To Consignment A/c	1,50,000	Dec.31	By Consignment A/c	
				Clearance expenses 3,000	
				Selling expenses 2,000	
				Commission 7,500	
				Del credere commission 4,500	17,000
				By Balance C/d	1,33,000
		1,50,000			1,50,000

Bank Account

2000		Rs.	2000		Rs.
Jan. 5	To B's Account	1,33,000	Jan. 5	By Bank charges	260
			Jan. 5	By Balance c/d	1,32,740
		1,33,000			**1,33,000**

Question. 24 (concept building question) M/s Ram & Co. of Delhi purchased 20,000 pieces of sarees @ Rs. 200 per saree. Out of these, 12,000 sarees were sent on consignment to M/s Laxman Traders of Mumbai at the selling price of Rs. 240 per saree. The consignor paid Rs. 6,000 for packing and freight.

M/s Laxman Traders sold 10,000 sarees @ Rs. 250 per saree and incurred Rs. 2,000 towards selling expenses and admitted Rs. 10,00,000 to Delhi on account. M/s Laxman Traders are entitled to a commission of 5% on total sales plus a further 20% commission on any surplus price realized over Rs. 240 per saree.

6,000 sarees were sold at Rs. 220 per saree by the consignor. Owing to fall in the market price, the value of stock of sarees in hand is to be reduced by 10% .Prepare the consignment Account and the account of M/s Laxman traders in the books of the consignor.

Question. 25 (Loss of Goods Due To Consignee's Negligence) R of Ranchi consigned goods costing Rs. 1,60,000 to M of Mumbai. The terms of the consignment were :

(a) Consignee to get a commission of 5 per cent on cash sales and 4 per cent on credit sales.
(b) Any goods taken by the consignee himself or goods lost through consignee's negligence, shall be valued at cost plus 12.5 per cent and no commission would be allowed on them.

The expenses incurred by the consignor were : carriage and freight Rs. 6,720 and insurance Rs. 3,440. The consignor received Rs. 50,000 as advance against the consignment. Account sales together with a draft for the balance due was received by the consignor showing the following position : Goods costing Rs. 1,28,000 were sold by M and goods costing Rs. 4,000 were lost through M's negligence. The expenses incurred by M were : advertisement Rs. 1,720 and other selling expenses Rs. 1,080. Show the ledger accounts in the books of R.

Question. 26 (Goods Stolen) On 1 January 2004, goods cost price of which was Rs. 66,000 were consigned by Ram Dhan of Delhi to Agent Haldi Ram of Dadri at a Performa invoice price of 20% above cost. Haldi Ram paid freight and other forwarding charges amounting to Rs. 2,000. He was allowed Rs. 1,000 per month towards establishment cost; 5% commission on gross sales and 3% del credere commission. Haldi Ram paid Rs. 500 as rent of godown for 3 months ended 31 March 2004. Three fourth of the goods were sold for Rs. 66,000 half of which were credit sales. Half of the balance of the goods was stolen, but the stock being insured, a claim lodged for Rs. 7,000 was settled for Rs. 6,900. Write up the consignment account, consignee's account and stock lost on consignment account as on 31 March 2004 in the books of Ram Dhan.

SOL. **Consignment to Dadri Account** **Cr.**

Jan. 1, 2004	Rs.	31 March 2004	Rs.
To Goods Sent on Consignment		By Haldi Ram' A/c (Sales)	
Account (66,000+13,200)	79,200	Cash Sales 33,000	
To Haldi Ram (Expenses) :		Credit Sales 33,000	66,000
Freight and other		By Goods Sent on Consign-	
forwarding charges 2,000		ment (Load)	13,200
Establishment cost 3,000		By Abnormal Loss	
(1,000*3)		(Goods stolen)	8,500
Godown Rent 500	5,500	By Consignment Stock A/c	
To Haldi Ram (Commission)		(At Invoice Price)	10,150
(5% on Rs. 66,000) 3,300			
(3% on Rs. 66,000) 1,980	5,280		
To Stock Reserve Account			
(1/6 of Rs. 9,900)			
To Profit and Loss Account	6,220		
(Profit)			
	97,850		97,850

Working Notes

(i) Calculation of Abnormal Loss

Cost of the goods damaged **[1/8 of Rs. 66,000]** **8,250**
Add : Expenses **(1/8 of Rs. 2,000)** **250**
8,500

(3/4 of the Goods were sold. Only 1/4 were left.
1/2 of 1/4 i.e. 1/8 were stolen) (ii) Valuation of Consignment Stock

Invoice price of the goods unsold 9,900
(1/8 of Rs. 79,200)
Add : Expenses (1/8 **of Rs.** 2,000) 250
10,150

(iii) Stock Reserve

1/6 of Rs. 9,900 **1,650**
(Load on Cost is 20/100, therefore Load on Sale
or invoice price is 20/120 or 1/6)

Question. 27 (Loss-In-Transit)

Nagaraj of Kolkata consigned 100 radio sets costing Rs. 500 each to Ram **Lal** of Patna. The invoice was made Performa at Rs. 600 per set. Ram Lal was entitled to a commission of 7.5% on sales *plus* 22.5% *del credere* commission and 10% of any excess price realised over invoice price. Ram Lal was to bear all expenses incurred after the goods reached his godown.

While sending the goods, Nagaraj paid Rs. 1,500 as forwarding expenses and insurance. In transit 10 radio sets were damaged and Nagaraj recovered Rs. 4,000 from Insurance Company. Ram Lal took delivery of the remaining radio sets paying Rs. 4,500 as freight, cartage etc. Ram Lal sold 70 radio sets at Rs. 800 each, 30 of them on credit. Out of which the proceeds of 3 radio sets could not be recovered because of disappearance of the customers. He paid Rs. 500 as storage and selling expenses. Ram Lal sent a bank draft for the amount due to Nagaraj. Show Consignment Account, Ram Lal's Account, Stock Destroyed Account and Goods Sent on Consignment Account in the books of Nagaraj.

Answer:

Dr. **Consignment to Patna Account** **Cr.**

	Rs.		**Rs.**
To Goods Sent on Consign-		By Ram Lal (Sales)	56,000
ment Account (100 x 600)	60,000	(70 X 800)	
To Cash Account (Expenses)	1,500	By Stock Destroyed Account	5,150
To Ram Lal (Expenses)	5,000	(Loss in-transit)	
(4,500 + 500)		By Goods Sent on Consign-	
To Ram Lal (Commission) :		ment Account (Load)	10,000
7.5% of Rs. 56,000	4,200	By Consignment Stock	
2.5% of Rs. 56,000	1,400	Account	13,300
10% of Rs. 14,000	1,400	(At invoice Price)	
To Stock Reserve Account	2,000		
(20x100)			
To Profit and Loss Account	8,950		
(Profit)			
	84,450		84,450

Important Calculations

(i) Value of the goods destroyed Rs.

Cost of 10 sets (500 x 10) 5,000

Add : Proportionate expenses paid

by the consignor (1,500X 10/100) 150

5,150

(ii) Value of consignment stock

Invoice Price of the unsold Stock (20 * 600) 12,000

Add : Proportionate expenses paid by the

Consignor (20/100 X1,500) 300

Add : Proportionate expenses paid by the

Consignee (20/90X 4,500) 1,000

13,300

(iii) Calculation of Commission Rs.

Ordinary Commission : 7.5% of Rs. 56,000 4,200

Del credere Commission : 2.5% of Rs. 56,000 1,400

Overriding Commission : 10% of Rs.1,4000 1,400

Sale Price 56,000

Less : Invoice Price 70 x 600 42,000

Excess Realised Price Over Sale Price 14,000

Question. 28 (With Opening Stock And Returns) On 1 April, the Consignment to Rangoon Account in the books of Modern Novel Stores, New Delhi, showed a debit balance of Rs. 5,500. This represented the invoice value 100 novels at 25% above cost at Burma Book Depot. On 10 April, they sent another 5,000 books on fiction at a Performa price of Rs. 125 each which was 25% above cost. They paid for packing Rs. 1,000, insurance Rs. 700 and freight Rs. 10,000.

Consignees received the books at the airport on 15 April and paid customs duty and clearing charges Rs. 5,000 and sent a two months bill for 75% of the invoice price. After one month of the receipt of the consignment, the consignee returned 100 books being defective. They paid freight and insurance Rs. 500. By the end of 31 December they had sold the opening stock of 100 books at Rs. 80 each and 4,500 new books at Rs. 150 each. Their expenses were : Advertising Rs. 15,000; salary Rs. 20,000 and service charges Rs. 1,500.

After deducting their expenses and commission at 10% on sale price, consignees sent a bank draft for the remaining balance. Show the consignment, consignee' and goods sent on consignment accounts.

Answer: **Consignment To Rangoon Account**

	Rs.		Rs.
To Consignment Stock		By Stock Reserve Account	1,100
Account **(Opening)** b/d	5,500	**(Load on opening stock)**	
To Goods Sent on		By Goods Sent on Consign-	
Consignment Account	6,25,000	ment Account **(Load)**	1,25,000
To Cash Account (Exp.)	11,700	By Goods Sent on	
To Burma Book Depot. (Exp.)	5,000	Consignment **(Returns)**	12,500
To Burma Book Depot.	500	**(100x125)**	
(Expenses on books returned)		By Burma Book Depot	
To Burma Book Depot		(Sale Proceeds)	
Advertising 15,000		(100 x 80) 8,000	
Salary 20,000		(4,500 x 150) 6,75,000	6,83,000
Service Charges 1,500	36,500	By Consignment Stock Account	
To Stock Reserve Account			64,170
To Goods Sent on			
Consignment Account	2,500		
(Load on books returned)			
To Burma Book Depot	68,300		
(Commission)			
To Profit and Loss Account	1,18,270		
	8,85,770		8,85,770

Working Notes

(i) Profit margin (or load/is *25% o£ cost* price which is equal to 20% on invoice (or loaded) price as given below.

Cost Price + Load = Invoice Price = 100 + 25% = 125

If load is 25 (i.e. 25% of cost (100), then

Invoice Price is Rs. 125. So load of Rs. 25 on Rs. 125 means 1/5 of invoice price or 20% of Rs. 125 (invoice price)

(ii) When opening stock is at invoice price, the stock reserve is 20% of invoice price. i.e. 1/5 of Rs. 5500 = Rs. 1,100. This is an opening balance of stock reserve account taken on the credit side of the Consignment to Rangoon. Account,

(iii) The profit margin (Load) included in Goods Sent on Consignment, Goods Returned and Closing stock is 1/5 or 20% of the invoice price,

Question no 29. Deleted due to some error in question.

Chapter 6D. AVERAGE DUE DATE

If a person owes a number of sums to a person on different dates, he may like to pay the whole amount on such a day as will involve neither party in loss of interest. Such a day is known as Average Due Date. It is calculated in the following way:

(i) Take one of the due date as the base date.
(ii) Calculate the number of days between the base date and the due date of every transaction. The basedate is not to be taken into account.
(iii) Multiply each amount by its respective number of days as calculated in the second step.
(iv) Add the amounts and the products separately.
(v) Divide the sum of products by the total of the amounts. This give the number of days the average duedate is away from the base date.
(vi) Add the number of days to the base date and thus arrive at the average due date.

Note :-We can take any of the due dates as the base date. The products of amount falling due before that date will then be minus and the products for amounts due after that will be plus. The difference of the minus and plus totals should be divided by the total amount and the average due date ascertained accordingly.

- If the minus products are higher, the days thus arrived at should be deducted from the base date.
- If the plus total is higher, the days should be added to the base date.

Calculation of interest with the help of average Due Date
The average due date determines the day on which various amounts can be settled without loss or gain of interest to either party.
If full payment is made on the average due date, no interest is payable.
If payment is made after the average due date, interest will be calculated for the number of days from the average due date to the actual date of payment/ settlement.

Days of Grace and date of Maturity:
A bill of exchange or promissory notes matures on the due date on which it falls due and it falls due on the third day after the day on which it is expressed to be payable. These extra three days are known as “Days of Grace". When it is an 'after date bill', the period is counted from the date of drawing the bill but when there is 'after sight bill', the period is counted from the date of acceptance of bill.
However, when bill is payable on demand or on presentation, it becomes due immediately on presentation for payment.
When the day on which bill or promissory note is at maturity after including three days of grace is a public holiday or Sunday, the due date will be preceding business *day.* If holiday is emergency or unforeseen holiday then the due date shall be the next following day.

Question:1 Calculate Average Due date from the following information:

DATE OF THE BILL	TERM	AMOUNT
August 10, 2012	3 months	6,000
October 23, 2012	60 days	5,000
December 4, 2012	2 months	4,000
January 14, 2013	60 days	2,000
March 8, 2013	2 months	3,000

Question:2 E owes to F the following amounts:
Rs.5,000 due on 10th March, 2013.
Rs. 18,000 due on 2nd April 2013.
Rs.60,000 due on 30th April, 2013
Rs.2,000 due on 10th June, 2013
He desires to make full payment on 30th June, 2013 with interest @10 % per annum from the average due date. Find out the average due date and the amount of interest.
[Ans. April.22, 2013 i.e.43 days from base date March.10, 2013, Interest Rs.l,607 approx.

Question: 3 Mr. Green and Mr. Red had the following mutual dealings and desire to settle their account on the average due date:-

Purchases by Green from Red:		Sales by Green to Red:	
January *6,* 2013.	6,000	January 6, 2013	6,600
February 2, 2013	2,800	March 9, 2013	2,400
March 31,2013	2,000	March 20, 2013.	500

You are asked to ascertain the average due date**. [Ans. Average due date February 20, 2013.]**

Question:4 Mr. X owed Rs.12,000 on 1st January, 2013 to Y. The following transactions took place between the two parties:-

2013		Rs.
January, 16	Y sold goods	8,000
January, 29	Y purchases goods	6,000
February, 10	Y pays cash	6,000
February, 10	X accepts a bill drawn by Y for one month	7,000

It is desired to settle the account between the two parties by one single payment on March, 15 together with interest at 18% p.a. Ascertain the date and the amount paid.

Answer: Let 1st January, 2013 be the base date.

Due date	Amount due to X (Rs.)	Due from X (Rs.)	Number of days from1stJan. 2013	Product. (Due to X)	Product (Due from X)
2013					
January, 1	----	12,000	0	---	----
January, 16	----	8,000	15	----	1,20,000
January, 29	6,000	---	28	1,68,000	----
February, 10	---	6,000	40	---	2,40,000
March, 13	7,000	---	71	4,97,000	----
	13,000	26,000		6,65,000	3,60,000
	13,000	----		---	3,05,000
	26,000	26,000		6,65,000	6,65,000

Dividing 3,05,000 by 13,000, one gets 23 days. Since the products are in favour of X and the amount against him, the average due date is 23 days prior to 1st January, 2013. Interest will be calculated on Rs.13,000 @18 % p.a. for 96 days i.e. for the period from 9th December, 2002 to 15 March, 2013; the amount of interest is Rs.615.45. On 15th March 2013 X will pay a total sum of Rs.13,615.45.

Question:5 A and B had the following transactions during the half year ending 30th September. 2013:-

Date		Rs.
April 12	A sells goods to B	3,750
April 18	B sells goods to A	5,000
May 7	A accepts B's draft at 2 months	3,000
June 2	A pays cash	1,750
July 24	B sends his acceptance at one month	5,000
Aug. 1	A sells goods to B	4,000
Sept. 13	A pays cash	3,500
Sept. 30	Settlement made.	

Interest is to be charged at 18% per annum. Find the average due date and calculate interest.

[Ans. Average due date, 25th July,1990; Interest, Rs.198.25]

Question:6 Ganga Ram has accepted the following Bills drawn by Parul:

On 8th March, Rs.4,000 for 4 months.
On 16th March, Rs.5,000 for 3 months.
On 7th April, Rs.6,000 for 5 months.
On 17th March, Rs.5,000 for 3 months.

He wants to pay all the bills on a single day. Find out this date. Interest is charged @ 18% p.a. and Ganga Ram wants to save Rs. 150 by way of interest. Find out the date on which he has to effect the payment to save the interest of Rs. 150.

Question:7 A trader having accepted the following several bills falling due on different dates, now desires to have these bills cancelled and to accept a new bill for the whole amount payable on the average due date:-

1.	March 1	400.00	2 months
2.	March. 10	300.00	3 months
3.	April. 5	200.00	2 months
4.	April. 20	375.00	1 month
5.	May. 10	500.00	2 months

You are required to find out the said average due date.

(Ans. Average Due Date: 34 Days.]

Question:8 For goods sold, Nair draws the following Bills on Roy who accept the same as per terms:-

Amount of the Bills (Rs.)	Date of drawing	Date of acceptance	Tenor
8,000	06.01.2013	09.01.2013	3 months after date
9,000	15.02.2013	18.02.2013	60 days after sight
8,000	21.02.2013 .	21.02.2013	2 months.
15,000	14.03.2013	17.03.2013	30 days after sight

On 18th March, 2013, it is agreed that the above Bills will be withdrawn and the acceptor will pay the whole amount in one lump sum by a cheque, 15 days earlier of average due date and for this a rebate of Rs. 1,000 will be allowed. Calculate the average due date, the amount and the due date, of the Cheque.

Question:9 Parul had accepted the following bills payable to Nandita:

Amount	Date (2003)	Term
400	January. 15	3 months
500	February. 10	2 months
300	March. 9	2 months
600	March 15	3 months

Parul wishes to pay all the bills on one day. When should she pay? Suppose actually, Parul makes the payment on 30th June, assuming interest @ 6 % p.a., what will be the amount of the interest? Check your answer by calculating the interest on each item and by calculating it using the average due date.

[Ans. May. 11; Interest Rs.14.79]

Question: 10 Manisha had accepted the under mentioned bills in favour of Suneeta.

Date of acceptance	Term (months)	Amount (Rs.)
January. 25	2	1000
February. 10	3	4,000
March. 6	2	3,000

Manisha now wishes to consolidate the bills into one bill payable at 2 months on such a date as will enable her to earn a rebate of Rs.6.00 @ 9 % p.a. Ascertain the date. **[Ans. Average Due date: May 6]**

Question:11 A has purchased goods, from B, the due dates for the payment of which are as follows.

Date of purchase	Amount	Due date
March 15	300	April 8
April 20	200	May 18
May 12	275	June 13
June 15	400	July 8

A wished to give a bill to B for the total amount due, the bill to be drawn on the average due date ascertain the average due date.

Answer:- Taking 8th April as the Starting Point

Due date	Amount	No. of days from the Starting Point	Product
April 8	300	0	0
May 18	200	40	8,000
June 13	275	66	18,150
July 8	400	91	36,400
Total	1,175	Total	62,550

62,550 /1,175 = 53 days

Average Due Date = Starting Point + 53 days.

i.e. 8th April + 53 days = May 31.

Question:12 From question 11. Find out the Average Due Date taking your starting point as:

May 18, the due date of the second transaction.

April 1, any other date.

July 8, the last date of transaction.

Answer: (I) Taking 18th May as the Starting Point

Due Date	Amount	No. of days from the Starting Point	Product
April 8	300	-40	-12,000
May 13	200	0	0
June 13	275	+26	+7,150
July 8 .	400	+51	+20,400
Total	1,175	Total	+ 15,550

+15,500 / 1,175 = + 13 days; Average Due Date = May 18+13 days = May 31

(ii) Taking 1st April as the Starting Point

Due Date	Amount	No. of days from the Starting Point	Product
April 8	300	7	2,100
May 18	200	47	9,400
June 13	275	73	20,075
July 8	400	98	39,200
Total	1,175	Total	70,775

70,775/1,175 = 60 days, Average Due Date = April 1+60 days = May 31.

(iii) Taking 8thJuly as the Starting Point

Due Date	Amount	No. of days from the Starting Point	Product
April 8	300	-91	-27,300
May 18	200	-51	-10,200
June 13	275	-25	-6,875
July 8	400	0	0
Total	1,175	Total	-44,375

Question:13 A partner has withdrawn the following sums of money during the half year ending 30th June 1982.

January 12	700
January 18	1,000
February 8	600
March 14	350
April 26	1,000
May 1	800
June 15	700

Interest to be charged at 5% per annum. Find the Average Due Date and calculate interest.

Answer:- Taking 30th June, as the Starting Point

Due	Amount	No. of days from the Starting Point	Product
January 12	700	-169	-1,18,300
January 18	1000	-163	-1,63,000
February 8	600	-142	-85,200
March 14	350	-108	-37,800
April 26	1,000	-65	-65,000
May 1	800	-60	-48,000
June 15	700	-15	-10,500
Total	5,150	Total	-5,27,800

-5,27,800 / 5,150 = -102 days approximately

The average due date is 102 days prior to the starting point i.e. 30th June - 102 days = 20th March,

Interest on Drawing = 5,150 x 102 x 5 / 365 x 100.= Rs. 71.96 Approximately.

Question:14 A Partner in a firm has withdrawn from the business during 1988 on which he is to be charged interest at *5%* per annum.

January 31	100	July 31	60
February 29	50	August 31	100
March 31	200	September 30	200
April 30	100	October 3 1	150
May 31	150	November 30	250
June 30	80	December 31	300

Find out the interest chargeable on the above drawings through the methods of Average Due Date.

Answer: Taking 31st December as the Starting Point

Date	Amount Withdrawn (Rs.)	Months for which interest is to be charged	Product
January 31	100	-11	-1,100
February 29	50	-10	- 500
March 31	200	-9	-1,800
April 30	100	-8	- 800
May 3 1	150	-7	-1,050
June 30	80	-6	- 480
July 3 1	60	-5	-300
August 3 1	100	-4	-400
September 30	200	-3	-600
October 3 1	150	-2	-300
November 30	250	-1	-250
December 31	300	-0	0
Total	1,740		-7,580

-7,580 / 1,740 = -4.36

Average due Date will be 4 1/3 months previous to 31st Dec.

Interest will be, 1,740 X 5/100 X 13 / 3 X 12 = Rs. 31.42 approximately

Question:15. Ram Kumar has to pay the following bills to Raja Ram:

Date	Amount	Tenor
January 9	200	3 m/s.
February 6	450	60 d/s.
March 9	500	2m/s.
March 12	300	30 d/s.

It was agreed between Ram Kumar and Raja Ram that a fresh bill should be drawn for the aggregate amount on 25th January. What should be the equated tenor of the bill so that neither party should stand to lose?

Answer: Taking April 10 as the Starting Point

Date of Bill	Tenor	Due Date	Amount	No. of days from the starting point	Product
January 9	3m/s.	April 12	200	2	400
February 6	60d/s.	April 10	450	0	0
March 9	2rn/s.	May 12	500	32	16,000
March 12	30d/s.	April 14	300	4	1,200
Total			1,450		17,600

17,600/1,450 = 12

Therefore, Average Due Date will be 12 days after the starting point i.e., 10th April + 12 days = April 22.

The bill should be drawn at such tenor as would mature on April 22. Now the period from January 25 to April 22 in 87 days. Deducting 3 Days of Grace the bill is to be drawn at 84 days.

Question:16. Ashwini took a loan of Rs.1,40,000 from Mahesh on Jan.1, 1987. This loan is to be repaid in seven equal annual instalments. Find out the Average Due Date, if first instalment is paid on Jan. 1. 1988.

Question:17 The following amounts are due to X by Y. Y wants to pay off (a) on 18.3 ... or (b) on 14.7 Interest rate of 8% p.a. is taken into consideration.

Due Dates *Rs*

*10.*1 500

26.1(Republic Day) 1,000

23.3 3,000

18.8 (Sunday) 4,000

determine the amount to be paid in (a) and in (b).

Answer:

Due Date	*Due Date*	*No.*	*Amount*	*Product*
(Normal)	*(Actual)*	*from 10.1. . .*	*Rs.*	
		taking as 0-Day		
10.1	10.1	0	500	0
26.1	25.1	15	1,000	15,000
23.3	23.3	72	3,000	2,16,000
18.8	17.8	219	4,000	8,76,000
			8,500	11,07,000

A.D.D. = 10th Jan.+ 11,07,000 = 10th Jan + 130 days = 20th May 8,500
January 21
February 28
March 31
April _30
110
(a) If the payment is made on 18.3 ... rebate will be allowed for unexpired time from 18.3 ...to 20.5 ... i.e., 13 + 30 + 20 i.e. for 63 days. He has to pay the discounted value of the total amount.
Discount = 8,500 x 8/1000 x63/365 = 680x 63/365 = Rs. 117.37

Amount to be paid on 18.3 ... Rs. 8,500 - 117.37 = 8,382.63
(b) If the payment is deferred to 14.7, interest is to be paid from 20.5 ... to 14.7 ... i.e., for 11+ 30 + 14 = 55 days.
Interest = 8,500 x 8/100 x55/365 = 680 x 55/365 = Rs. 102.47
The amount to be paid on 14.7.
Rs. 8,500+ 102.47 = 8,602.47

Question 18: Swaminathan owed to Subhramanium the following sums;
Rs. 5,000 on 20th January, 2009
Rs. 8,000 on 3rd March, 2009
Rs. 6,000 on 5th April, 2009
Rs. 11,000 on 30th April, 2009
Ascertain the average due date.
Answer: Computation of average due date taking 20th January as the base date

Due date	Amount	No. of days from 20th January	Product
20th January	5,000	0	0
3rd March	8,000	42	3,36,000
5th April	6,000	75	4,50,000
30th April	11,000	100	11,00,000
	30,000		18,86,000

Average due date = 20th January $+\frac{Total\ Product}{Total\ Amount}$

$$= 20th\ January + \frac{18,86,000}{30,000}$$

= 20th January, 2009+63 days (approx)
= 24th march, 2009

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Question: 19. From the following details find out the average due date:

Date of Bill	Amount (Rs.)	period of Bill
29th January, 2009	5,000	1 month
20th March, 2009	4,000	2 months
12th July, 2009	7,000	1 month
10th August, 2009	6,000	2 months

Answer:Calculation of Average Due Date (Taking 3rd March, 2009 as base date)

Date of bill 2009	Term	Due date	Amount Rs.	No. of days from the base date i.e. 3rd March, 2009 (Rs.)	Product (Rs.)
29th January	1 month	2009 3 rd March (W. N. 1)	5,000	0	0
20th March	2 months	23rd May	4,000	81	3,24,000
12 July 1, 2012	1 month	14th Aug. (note 2)	7,000	164	11,48,000
10th August	2 months	13rd Oct	6,000	224	13,44,000
			22,000		28,16,000

Note 1 : 1 Bill dated 29th January, 2009 has the maturity period of one month, but there is no corresponding date in February, 2009. Therefore, the last day of the month i.e. 28th February, 2009 shall be deemed maturity date and due date would be 3rd March, 2009 (after adding 3 days of grace).
Note 2: Bill dated 12th July, 2009 has the maturity period of one month, due date (after adding 3 days of grace) falis on 15th August, 2009.15th August being public holiday, due date would be preceding date i.e. 14th August, 2009.
Average due date

$$= Base\ date + Dayes\ eaual\ to + \frac{Sum\ of\ Products}{Sum\ of\ Amounts}$$

$$= 3rd\ March, 2009 + \frac{28,16,000}{22,000}$$

= 3rd March, 2009+128 days
= 9th July, 2009. **(CA-IPCC GROUP 1-NOV 2010)-4 MARKS**

Question 20: A and B are partners in a firm and share profits and losses equally. A has withdrawn the following sum during the half year ending 30th June, 2010:

Date	Amount Rs.
January 15	5,000
February 10	4,000
April 5	8,000
May 20	10,000
June 18	9,000

Interest on drawing is charged @ 10% per annum. Find out the average due date and calculate the interest on drawings to be charged on 30th June, 2010**.(CA-IPCC GROUP 1- MAY 2011)- 4 MARKS**

Answer: Calculation of Average due date
(Base Date 15th Jan, 2010)

Date	Amount Rs.	No. of Days	Product Rs.
January 15	5,000	0	0
February 10	4,000	26	1,04,000
April 5	8,000	80	6,40,000
May 20	10,000	125	12,50,000
June 18	9,000	154	13,86,000
	36,000		33,80,000

Average Due date

$$= Base\ date + \frac{Total\ Product}{Total\ Amount} \times days$$

$$= 15th\ Jan + \frac{33{,}80{,}000}{36{,}000} \times days$$

= 15 jan + 94 days (approx)
Number of days from 19th April, 2010 to 30th June, 2010 = 72 days
∴ Interest on drawings from 19th April to 30 th June @ 10%.

$$= Rs.36{,}000 \times \frac{72}{365} \times \frac{10}{100} = Rs.710$$

Thus Rs. 710 will be charged from A on 30th June, 2010 as interest on drawing.

Question 21: Mr. Black accepted the following bills drawn by Mr. White.

Date of Bill	period	Amount Rs.
09.3.2010	4 months	4,000
16.3.2010	3 months	5,000
07.4.2010	5 months	6,000
18.5.2010	3 months	5,000

He wants to pay all the bills on a single date. Interest chargeable @ 18% p.a. and Mr. Black wants to save Rs. 150 on account of interest payment. Find out the date on which he has to effect the payment to save interest of Rs. 150. Base to be taken shall be the earliest due date**.(CA-IPCC GROUP 1-NOV 2011)-8 MARKS**

Chapter 6E. ACCOUNT CURRENT

An Account Current is a running statement of transactions between two parties *(one who renders the account and the other to whom the account is rendered)* for a given period of time and includes interest allowed or charged on various items. It takes the form of an account. It is prepared when frequent transactions regularly take place between two parties.

If two parties have a number of transactions between themselves, they will exchange statement confirming the amount involved. Usually, such statements are merely a copy of ledger account for the period concerned. However, one party may calculate interest due to or due by the other party. Such a statement is known as "Account Current."

This statement is headed, as say, **Sonu in Account Current with Monu**. It means that Monu is sending the statement to Sonu, showing the transactions between Sonu and Monu.

METHOD OF PREPARATION OF ACCOUNT CURRENT:

1) With the help of interest table.

1) With the help of interest table.
2) By means of products;

(1) **With the help of interest table:-** Under this method all the transactions are arranged in the form of an account. Two additional columns are made on both the sides of such an account.

- One column is meant to indicate the number of days counted from the due date of each transaction to the date of rendering the account.
- Other column is meant for writing interest.

The interest column of both the sides are totalled up and balance is drawn.

Note:- If no specific date is mentioned as the date, on which payment is due, the date of the transactions is presumed to be the due date.

(2) **By means of products:—** Under this method, interest columns are replaced by "Product" columns. Product in this case is calculated by multiplying the amount with the number of days for which it has been outstanding. Products of the debit side and the product of the credit side are totaled separately. Interest is calculated for one day on the difference of the two side totals and is entered on the bigger side. There are two methods of calculating interest:-

(a) Forward method
(b) Backward method (Epoque method)

RED-INK INTEREST:- In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that period. However, interest from the date of closing to such due date is written in “Red-Ink" in the appropriate side of the ' Account current'. This interest is called **Red- Ink interest**. This Red Ink interest is treated as negative interest.

Question: 1 Make out an Account Current to be rendered by Ram Kumar to Raja Ram as on 30th April 2017,taking interest into account at 5% per annuam. The following transactions took place between them:

Jan. 1	Balance due from Raja Ram	2,000
Jan. 1	Sold goods to Raja Ram, due on Feb. last	3,650
Jan. 19	Bought goods of Raja Ram, due on March last	1,000
Feb. 3	Cash received from Raja Ram	2,500
Feb. 12	Sold goods to Raja Ram due on 15th April	2,200
Mar. 21	Bought goods from Raja Ram	2,000
Mar. 23	Received Cash from Raja Ram	600
Mar.25	Sold goods to Raja Ram due on 10th April	1,500

Question:2 Make out an Account Current for the transactions given in question 1 by means of Products table under:

(a) Forward method
(b) Backward method(époque method)

Question:3 From the following particulars make out an Account Current to be sent by Binoy Kumar to Arun as on 30th April. 2018. Calculating interest at 5 percent per annum on Debit Balances and 2% annuam on Credit Balances:

2018		
Jan. 1	Balance due from Arun	500
Jan. 5.	Sold goods to Arun	800
Jan. 25.	Cash received from Arun	1.000
Feb. 4.	Bought goods from Arun due March7	500
Feb. 20.	Sold goods to Arun due March 23	1,200
Feb. 22.	Received Arun's acceptance at 2 Months	200
Mar. 10.	Sold goods to Arun due April 13	500
April 15	Received cash from Arun	300

Question:4 On 1st January. 2018, Mr. Pramod opened a Current Account with Allahabad Bank. Ranchi and deposited a sum of Rs.5,000.

He further deposited the following amounts:		His withdrawals were as follows -	
2003	Rs.	2003	Rs.
16th January	5,000	15th February	5.000
12th March	3,000	11th April	9,000
6th May	4,000	15th June	5,000

Show the account of Mr. Pramod in the Bank's Ledger on 30 June, 2018, and charge 6% interest on debit balances and 3% interest on credit balances.

Question:5 Make out an Account Current for *XYZ* from the following:

1973		Rs.
Jan. 1	Sold goods to XYZ due 1st May	250
Jan 30	Received cash from XYZ	175
Feb. 15	Bought goods from XYZ due 15th April	300
Mar. 10	Paid cash to XYZ	325
Apr. 15	Sold goods to XYZ	500
May 10	Bought goods from XYZ	200
June 15	Paid cash to XYZ	125

Interest is 5% p.a. The account is to be made up to 30th June, 2003

Answer: **XYZ in Account Current with ----- As on 30th June 2003.**

Date	Particulars	Amt.	Day	Products Int. nos.	Date	Particulars	Amt.	Day	Products int. Nos.
1973					1973				
Jan. 1	To Sales A/c				Jan. 30	By cash A/c	175.00	151	264.25
	(due May 1)	250	60	150	Feb. 15	By purchase	300.00	76	228.00
Mar. 10	To Cash *A/c*	325	112	364		(due April 15)			
Apr. 15	To Sales A/c	500	76	380	May. 10	By Purchases	200.00	51	102.00
June 15	To Cash A/c	125	15	18.75		By Balance of			
					June30	Int. Numbers			
June 30	To Int. A/c	4.36			June 30	By Balance C/d	529.36		318.50
		1,204.36		912.75			1,204.3		912.75
1973									
July 1	To Bal. B/d	529.36							

Note:- Interest = 318.50 X 5 / 365 = Rs. 4.36

Question:6 Following transaction took place between P and Q during the month of April 2018

		Rs.
April. 1	Amount payable by P to Q	10,000
April. 7	Received acceptance of P to Q for 2 months	5,000
April. 10	Bills Receivable (accepted by Q) on 7.2.2018 is honoured on this due date	10,000
„ 10	P sold goods to Q (invoice dated 10.5.2018)	15,000
„ 12	P received cheque from Q dated 15.5.2018	7,500
„ 15	Q sold goods to P (invoice dated 15.5.2018)	6,000
„ 20	P returned goods sold by Q on 15.4.2018	1,000
" 20	Bill accepted by Q is dishonoured on this due date	5,000

You are required to make out an account current by **products method** to be rendered by P to Q as on 30.4.2018, taking interest into account @ 10 % p.a.

Question.7 Following transaction took place between X and Y during the month of April,2008

		Rs.
April 1	Amount payable by X to Y	10,000
7	Received acceptance of X to Y for 2 months	5,000
10	Bills receivable (accepted by Y) on 7.2.2008 date	
10	X sold goods t Y (invoice dated 10.5.2008)	15,000
12	X received cheque form Y dated 15.5.2008	7,500
15	Y Sold goods to X (invoice dated 15.5.2008)	6,000
20	X returned goods sold by Y on 15.4.2008	1,000
20	Bill accepted by Y is dishonoured on this due date	5,000

You are required to make out an account current by products method to be rendered by C to Y as on 30.4.2008, taking interest in to account @ 10% p.a.

CHAPTER 7A & 7B. PREPARATION OF FINAL ACCOUNTS OF SOLE PROPRIETORSHIP

(NON-MANUFACTURING ENTITIES & MANUFACTURING ENTITIES)

FINAL ACCOUNTS OF NON-MANUFACTURING ENTITIES:-

Introduction:-

Non-Manufacturing entities are trading entities which are engaged in the purchase and sale of goods at profit without changing form of goods.

These entities do not process the goods.

- Profit is obtained by preparing Income statement (i.e trading A/c and profit and loss).
- Financial position of enterprises can be known by preparing Position statement (Balance Sheet).

(a) INCOME STATEMENT:-This statement is prepared at the close of year.

Income statement is divided into two parts for non-manufacturing concerns.

Trading Account:-

At the end of the year every business must ascertain it profit or loss. This is done in two-stage (I) finding out the gross profit (or gross loss) and then finding out net profit (or net loss).

Gross profit is the excess of the net sales (i.e. sales - sales return) over the cost of goods sold.

Cost of goods sold equal to opening stock + purchases during the year + freight inward - Closing Stock of goods.

The usual way to ascertain gross profit is by means of an account called the Trading Account.

In a Trading Firm where business consist of purchases and sales only, the Trading Account is debited with the;

Value of the opening stock, purchases made during the year; and

any other expenses which have been incurred to bring the purchased goods to the firm's factory or otherwise to make the goods ready for sale.

The examples of such expenses are freight, customs duty and octroi duty on goods purchase.

In a manufacturing business, all expenditures which are incurred up to the time the goods are ready for sale is debited to trading account.

Examples are purchase of raw material, wages paid to workmen, fuel and power used to run the machinery, carriage on purchase etc.

In respect of Sales, the following point should be taken in to consideration: - If goods have been sold but not yet dispatched then the goods sold should not be included in the closing stock. Such goods should be kept apart.

If property in the goods has not yet passed to the buyer, then it should not be treated as a sale. In such case the entry for sale should be reversed.

No sales out of the goods received on behalf of others should be treated as sale. Such sales have to be credited to the account of the consignor. If the sales have already credited to Sales Account, the following entry should be passed:

Sales Account	- Dr	****	
To consignor's account			****

Sale of Fixed Assets or of investment should be excluded from sales. Thus if old assets is sold, it must not be credited to sales Account. If it has been credited, the following entry should be passed:

Sales Account	— Dr.	****	
To assets Account			****

Goods Sent on Approval:-- Goods sent on 'approval' or 'on sale or return' basis, means the delivery of the goods to the customers with the option to retain or return them within a specified period. When such transactions are few, these transactions are accounted for as an ordinary sale. If at the year end goods are still lying w*ith* customers and the specified period has not yet expired, the original entry made for sale is cancelled. Like an ordinary closing stock, such goods are considered as stock lying with customers on behalf of sellers and are valued at cost.

Format of TRADING ACCOUNT For the year ended 31st March, 20…

Particulars		Amount	Particulars		Amount
To Opening Stock		******	By Sales	*****	
To Purchase (Cash + Credit)	*****		**Less:** Sales Return	*****	******
Less: Purchase Return	*****				
Goods withdrawn for personal use	*****		By Abnormal Loss (if any)		
			Loss by fire	*****	
Goods distributed by way of free sample	*****		Loss by theft etc.	*****	******
Goods given as charity	*****	******	By Closing Stock		******
To Customs Duty		******			
To Octroi Duty		******	By Gross Loss trad. to P & L A/c		******

To Excise Duty	******		
To Freight inward	******		
To Carriage inward	******		
To Wages and Salaries	******		
To Rent & Taxes (Factory building.)	******		
To Factory Lighting (electricity)	******		
To Power & Fuel	******		
To **Gross Profit carried**			
to profit & Loss A/c	******		
TOTAL	******	**TOTAL**	******

The Profit and Loss Account starts with the credit from the Trading Account in respect of Gross Profit or Debit if there is Gross Loss. Thereafter, all those expenses, which have not been debited to trading account, arc debited to profit and loss account. If there are any incomes or gains, for e.g. rent received on premises sublet. interest on investments, discount received from suppliers, these will be credited to Profit and Loss Account

Format of Profit and Loss Account (For the year ending on----)

Particulars	Amount	Particulars	Amount
To Gross Loss b/d	******	By Gross Profit b/d	******
To Salaries & Wages	******	By Profit on Sale of fixed assets	******
To Salaries to Proprietor/ Partners'/ Directors'	******	By Profit on Sale of investment	******
To Bonus	******	By Interest	******
To Rent, Rates & Taxes	******	By Dividend	******
To Freight & cartage outward	******	By Commission	******
To Electricity Exp.	******	By Discount	******
To Repair & Maintenance	******	By Rent	******
To Insurance Premium	******	By Sale of Scraps	******
To Staff Welfare exp.	******	.By Miscellaneous Income	******
To Pension & Gratuity	******		
To Compensation to workmen	******		
To Audit Fees	******		
To Printing & Stationery	******		
To Postage, Telegram & Telephone	******		
To Commission, Brokerage & Discount	******		
To Travelling Exp.	******		
To Conveyance Exp.	******		
To Entertainment Exp.	******		
To Sales promotion Exp.	******		
To Advertising & Publicity	******		
(including free sample distribution)	******		
To discount allowed	******		
To Bad Debts	******		
To Interest	******		
To Bank Charges	******		
To Legal Charges	******		
To General Exp.	******		
To Packing Expenses	******		
To Motor Car Expenses.	******		
To Depreciation:	******		
On Building *****			
On Plant & machinery *****			
On Furniture & Fixture etc. *****			
To Loss on sale of fixed assets	******		
To Loss on sale of investment	******		
To Abnormal loss:			
Loss by theft	******		
Loss by fire	******		
Loss by Embezzlement	******		
To Provision for Doubtful Debts	******		
To Provision for Taxation	******		
To Net Profit trd. to Capital A/c	******	**By Net Loss trd. To Capital A/c**	******
Total	******	Total	******

(B) Position Statement:-Position statement mainly consist Balance sheet which shows assets, and liabilities and capital of business. For better understanding of financial position additional statement like cash flow statement, statement showing earning per share, value added statement etc. are prepared. The statement showing the financial state of affairs is called Balance Sheet.

BALANCE SHEET:-- The Balance Sheet may be defined as "a statement which sets out the assets and liabilities of a firm or an institution as at a certain date. All the assets account which have not been closed by transfer to either the Trading Account or the Profit & Loss account must appear in the balance Sheet otherwise the two side of the balance sheet will not agree and it will not reflect the correct financial position of the business.

The Balance Sheet similarly is required to give true and fair view of the financial position at the end of the year
The study of the Balance Sheet enables the person to judge whether the firm or institution is financially sound or not.

The Balance Sheet records on one side what the firm or institution possesses, called assets. Assets may be convertible in to cash or they may be enable the firm to carry on it work (for example patents which permit goods of a certain type to be produced) or the firm may enjoy some benefits without further payment (like insurance premium relating to the next year.).
On the other side it records the source from which the necessary funds have been derived - contribution by the proprietors (capital) and loan raised and credit received from outsiders.
The Profit and Loss Account and Balance Sheet are inter-linked. The Balance Sheet described the financial position while the Profit and Loss Account supplies much of the explanation of the causes leading to the change in the financial position.

Items to be shown on the Assets side of a Balance Sheet:

- **Fixed Assets:-** Fixed assets are those assets that are not meant to be sold but are meant to be utilised in the firm's business. Examples are machinery, patents, buildings and goodwill. Fixed assets can be further classified in to tangible, intangible, wasting and fictitious assets.

Tangible Assets	• Those fixed assets which can be seen and touched.
Intangible Fixed Assets	• Those fixed assets which can nether seen nor been touched e.g.. Goodwill, Patents. Trade Mark.
Wasting assets	• Those fixed assets, which are consumed during the course of time A mine, for example, will be useless when it has been fully exploited. Such assets are often called wasting assets.
Fictitious assets	• Those assets, which has no value. An example is preliminary expenses.

- **Investment:**— an expenditure incurred on assets to earn interest, dividend, income, rent or other benefit
- **Current Assets:**— Those assets which are held:—
  - ❖ In the form of cash
  - ❖ For their conversion into cash e.g. stock of finished goods, debtors, Bills Receivable, Accrued income.
  - ❖ For their consumption in the production of goods or rendering of services e.g. stock of raw materials, WIP.

Item to be shown on the Liabilities side of a Balance Sheet:

The credit balances of those ledger accounts which have not been closed till the preparation of the Trading and Profit and Loss account, are shown on the 'Liabilities side of the Balance Sheet.

(a) Liabilities: - It is the claim of outsiders on the assets of business. Usually the following items are included in liabilities:--

i) **Long-term liability:**-- Those that will be paid after one year.
ii) **Current Liability:** —— Those that must be settled within one year.

(b) Capital: - Capital is the excess of assets over liabilities. **It is the claim of owner in total assets of the business.** It refers to the amount invested in an enterprise by the proprietor or partners, which is increased by the amount of profit earned and is decreased by the losses incurred and the amount withdrawn whether in the form of cash or kind.

ARRANGEMENT / MARSHALLING OF ASSETS AND LIABILITIES :

The term **'Marshalling'** refers to the order in which the various assets and liabilities are shown in the Balance Sheet. The assets and liabilities can be **shown either in the order of liquidity or in the order of permanency.**

Assets: - Assets can be put down in a Balance Sheet, in two ways - either in the order of liquidity or in the order of permanence.

i) **Liquidity:** - It means the ease with which the assets may be converted into cash; those assets which are most difficult to convert them in cash are written last.

ii) **Permanence:** Assets that are to be used permanently in the business and are not meant to be sold are written first. Assets that are most liquid such as cash in hand are written last.

The various assets is grouped in the two order will appear as follows:-

In order of Liquidity	**In order of Permanence**
Cash in hand	Goodwill
Cash at Hand	Patents
Investments	Furniture
Sundry debtors	Machinery
Stock of finished goods	Land & building
Stock of raw material	Prepaid exp,
Stock of WIP	Stock of finished goods
Prepaid Exp.	Stock of raw material
Land & Buildings	Sundry debtors
Machinery	Investment
Furniture	Cash in hand
Patents	Cash at bank

Some assets cannot be easily classified. For example, investment can be easily sold but desire may be to keep them. Investment may, therefore, be both liquid and semi-permanent according to the intention of the firm.

Liabilities:- Liabilities can also be grouped in two ways — either in order to **urgency of permanent or in reverse** order. One way is to first show the capital, then long term liabilities and last of all short term liabilities like amounts due to supplier of goods or bills payable. The other way is to start with short term liabilities and then show long term liabilities and last of all capital.

Floating Assets:—Floating assets are those assets which are meant to be converted in cash at earliest opportunity. Examples are cash, sundry debtors, stock of goods etc. The term floating is derived from the fact that **such assets constantly change in value through transactions that are entered into**. The figure total debtors for instance changes from day to day. **Those assets are also known as circulating assets**.

FINAL ACCOUNT OF MANUFACTURING ENTITIES

MANUFACTURING ACCOUNT:

In a case where the cost of manufacturing goods is to be ascertained, the Manufacturing Account is prepared. The main feature of a Manufacturing Account are the following :—

- It is debited with all expenses that are incurred in manufacturing of goods. In this account, besides such expenses as freight on purchases of raw materials, customs duty, wages, rent and lighting of factory building, we must also debit the manufacturing account with repairs to plant and machinery. depreciation on machinery, loose tools, etc.
- In this account, we have to show the value of materials consumed instead of showing figures of opening stock, purchases and closing stock separately.
  - **Raw Material consumed:**

Opening Stock of Raw material	*****
Add: Purchases of Raw Material	*****
Less: Closing Stock of Raw Material	*****
	*****

Note:- Opening and Closing Stocks of finished goods are not entered in Manufacturing Account,

- The opening stock of work-in- progress is debited and closing stock of work-in-progress is credited. The usual basis of valuation of work in progress is the actual materials used and labour spend on these unfinished goods plus a proper proportion of manufacturing expenses, generally on the basis of labour.
- In the course of manufacturing some waste material always emerges. when they are sold, the amount realized credited to "Scrap Account". This Account is transferred to the credit side of the Manufacturing Account.
- The Balance in Manufacturing Account (i.e. the difference between the debit and credit sides) is the cost of the goods produced during the period. This is transferred to the debit side of the Trading Account.

Manufacturing Account of ----for the year ending----

Particulars		Amount	Particulars	Amount
To Opening WIP		*****	By Sale of Scrap	******
To Raw Material Consumed			By Closing WIP	******
Opening Stock	****		By Trading Account	******
Add: Purchases	****		(Cost of Goods produced	
Add: Cartage in ward	****		transfrd.)	
Add: Freight in ward	****			
Less Closing Stock	****			
To Wages		******		
To Salary to Works Manager		******		
To Power. Electricity and Water		******		
To Fuel		******		
To Depreciation on:		******		
Plant and Machinery				
Factory Land & Building	****			
To Repair to:	****	****		
Plant & Machinery				
Factory Building	****			
To Insurance:	****	****		
Plant & Machinery				
Factory Building	****			
To Factory Rent & Taxes	****	****		
To Royalty based on production		****		
		****		
Total		*****	Total	******

CONCEPT BASED QUESTIONS

Question: 1. Following are the extract from the Trial Balance of a Company as at 31st March 2017.

Particulars.	Dr. (Rs.)	Cr. (Rs.)
Sundry Debtors	2,05,000	
Bad Debts	3,000	

Additional Information:
After preparing the Trial Balance, it is learnt that Mr. X, a debtors has become insolvent and nothing could be recovered from him and, therefore, the entire amount of Rs.5,000 due from him was irrecoverable,
Create 10 % provision for doubtful debts.
Pass the necessary journal entries and show the relevant accounts.

Question: 2. Following are the extracts from the Trial Balance of a Company as at 1st March 2017.

Particulars	**Dr. (Rs.)**	**Cr. (Rs.)**
Sundry Debtors	2,05,000	----
Provision for Doubtful Debts	-----	8,000
Bad Debts	3,000	----

Additional Information:
Additional Bad debts Rs.5,000
Maintain the provision for doubtful debts @ 10 % on debtors.
Pass the necessary journal entries and show the relevant accounts.

Provision for Discount on Debtors:--The procedure is the same as for provision for bad debts. **First, the profit and loss account is debited and the provision for discount account credited.** This account is carried forward to the next year. Next year, the actual discounts allowed will be debited to the profit and loss account. The profit and loss account will be debited to make up the required balance each year. If after providing the required balance a surplus is left in the provision for discount account, it should be transferred to the credit of profit and loss account. But the provision for discounts should be calculated on total debtors minus the provision for bad debts.

Question: 3. Following are the extracts from the Trial Balance of a Company as at 31st March 2017.

Particulars	Dr. (Rs.)	Cr. (Rs.)
Sundry Debtors	2,05,000	
Bad Debts	3,000	
Discount	1,800	

Additional Information:
(i)Create a Provision for doubtful debts @ 10% on debtors.
(ii)Create a provision for discount on debtors @ 2% on debtors.
(iii)Additional Discount given to the debtors Rs. 5,000
Pass the necessary entries and show the relevant accounts (including final accounts)

Question: 4. Following are the extract from the Trial Balance of S. Ltd. on 31st March 2017.

Particulars	Dr. (Rs)	Cr. (Rs)
Sundry Debtors	2,05,000	----
Provision for Doubtful Debts	----	8,000
Provision for Discount on Debtors	-----	2,000
Bad Debts	3,000	----
Discount	1,000	------

Additional Information:
(i)Additional bad Debts Rs. 4,000
(ii)Additional Discount allowed to Debtors Rs. 1,000
(iii)Maintain a provision for bad debts @ 10% on debtors.
(iv)Maintain a provision for discount @ 2% on debtors.
Pass the necessary journal entries and show the relevant accounts (including final accounts).

Question: 5.(mind blowing question) Trial balance as on 31, March 17

	Dr.	Cr.
S. Debtors	2,00,000	--
Bad Debts	10,000	--
Creditor		1,00,000

(i) Mr. A, a debtor of Rs. 20,000, suffering from financial difficulties, it is expected that he could pay only 60% of the amount.
(ii) Mr. B, a debtor of Rs. 10,000 also a creditor of Rs. 10,000 .
(iii) Mr. C a debtor of Rs. 5,000 became insolvent and official receiver declared a first and final dividend of 65% of the amount.
(iv) Create provision for doubtful debt @ 5% on debtors.
(v) Create provision for discount @ 2 % on debtors

Question: 6. Trial balance as on 31, March 2017

	Dr.	**Cr.**
Debtors	2,00,000	
Sales		5,00,000
Purchases	1,00,000	
Manufacturing exp.	40,000	

(i) goods costing Rs. 60,000 were sent on approval basis for Rs. 80,000. Approval has not yet been received till the end of 31 March 2017.
(ii) Closing stock was valued at Rs. 20,000.
(iii) Create provision for doubtful debt @ 10%.

Question: 7. Assume in previous question, out of goods sent on approval basis, company has not received approval for 20% of goods.

Question: 8. Trial balance as on 31st March ,2017

	Dr.	**Cr.**
Machine	2,00,000	
Addition to machine (1 Oct.,16)	50,000	
Rent	40,000	
Salary	30,000	
Commission received	--	10,000
Fees received		20,000

Adj: (i) Charge depreciation @ 10% p.a. on machine.
(ii) Rent due but not paid Rs. 5,000.
(iii) Commission due but not received Rs. 2,000.
(iv) Fees received in advance Rs. 3,000.
(v) salary includes Rs 12,000 paid for next year.

Question: 9. **Trial balance as on 31st march,2017**

	Dr.	Cr.
Machine	1,80,000	
Rent	45,000	
O/S Rent		5000
Salary	26,000	
Prepaid Salary	4,000	
Commission Received		12,000
Accrued commission	2,000	
Fees earned		17,000
Unearned fees		3,000
Depreciation	20,000	

Question: 10. **Trial balance as on 31st march ,2017**

	Dr.	Cr.
Capital		3,00,000
Drawings	1,00,000	

Adj: (i) Allow interest on capital @ 10% p.a.
(ii) Charge interest on drawings @ 5%.

Question: 11.

	Dr.	Cr.
Gross Profit		3,00,000
Rent	10,000	
Salary	20,000	

Adj: manager is entitled to a commission of 5% on net profit before commission.

Question: 12. **Assume in previous question, manager is entitled to a commission of 5% after charging such commission.**

Question: 13.

	Dr.	Cr.
Op. Stock	10,000	
Purchases	2,00,000	
Sales		5,00,000
Manf. Exp.	20,000	

Adj: (i) Closing stock was valued at Rs. 25,000.
(ii) During the year, goods costing Rs. 40,000 were lost due to fire and nothing could be recovered from insurance company.

Question: 14. Assume in previous question, Insurance company admitted the claim for Rs. 27,000 in full settlement.

Question 14 GST.(14 question has been repeated 2 times. Read carefully. It has been explained in last video class).
On 28th March, 2016, stock worth ₹ 80,000 was destroyed by fire. These goods were purchased paying IGST @ 12%. The stock was insured and the insurance company admitted a claim of Rs 85,000 only. Give necessary Journal entries and show how it will be treated in the Final Accounts.

Question: 15. **Trial Balance as on 31 march,2017**

	Dr.	Cr.
Opening stock	10,000	
Purchases	1,00,000	

(i) Closing stock were valued at Rs.20,000

Question: 16.

	Dr.	Cr.
Purchases (Adjusted)	90,000	
Stock	20,000	

Question: 17.

	Dr.	Cr.
Purchases	90,000	

Adj: (i) Goods Costing Rs. 10,000 were lost due to leakage, considered as normal loss.
(ii) Goods costing Rs. 12,000 were lost due to theft.
(iii) Closing stock was valued at Rs. 20,000.

Question : 17GST.(17 question has been repeated 2 times. Read carefully. It has been explained in last video class)

Trial Balance of Mr. Gopal Das as on 31st March, 2019 was as follows:

Heads of Accounts	Dr. (₹)	Cr. (₹)
Purchases	8,12,525	
Sales		12,62,000
Provision for Doubtful Debts		26,000
Sundry Debtors	2,51,000	
Sundry Creditors		1,52,630
Bills Payable		20,250
Opening stock	1,33,625	
Wages	1,15,685	
Salaries	27,875	
Furniture	36,250	
Postages	21,130	
Power and Fuel	6,750	
Trade Expenses	29,155	
Bad Debts	2,625	
Loan to Ram @ 10% p.a. (1.12.2018)	15,000	
Cash in Hand and at Bank	50,000	
Trade Expenses accrued but not paid		3,500
Drawings	22,260	
Capital		50,000
Outstanding Wages		10,000
Input CGST	5,000	
Input SGST	5,000	
Input IGST	8,000	
Output CGST		4,000
Output SGST		4,000
Output IGST		9,500
Total	**15,23,880**	**15,23,880**

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as at that date after taking into consideration the following information:

(i) Stock on 31st March, 2019 was ₹ 62,750.

(ii) Depreciation on Furniture is to be charged @ 10%.

(iii) Sundry Debtors include an item of ₹ 2,500 due from a customer who has become insolvent. Remaining debtors are not considered doubtful of recovery.

(iv) Goods of the value of ₹ 7,500 plus IGST @12% were destroyed by fire and insurance company admitted a claim for Rs 8,000.

(v) Received goods from Rahul and Co. of ₹ 6,000 plus IGST @12% on 27th March, 2019 but the invoice of purchases was not recorded in Purchases Books.

Solution: TRADING AND PROFIT AND LOSS ACCOUNT OF GOPAL DAS For the year ended

Particulars	₹	Particulars	₹
To Opening Stock	1,33,625	By Sales	12,62,000
To Purchases 8,12,525		By Loss of Stock by Fire	7,500
Add: Omitted Purchases (Note 1) 6,000	8,18,525	By Closing Stock	62,750
To Wages	1,15,685		
To Power and Fuel	6,750		
To Gross Profit c/d (transferred to Profit and Loss A/C)	2,57,665		
	13,32,250		**13,32,250**
To Loss of Stock by Fire (₹8,400-₹8,000)	400	By Gross Profit b/d	2,57,665
To Salaries	27,875	By Provision for Doubtful Debts (Note 2)	
To Postage	21,130	Existing Provision 26,000	
To Trade Expenses	29,155	Less: Bad Debts 2,625	
To Depreciation on Furniture	3,625	Further Bad Debts 2,500 5,125	20,875
To Net Profit transferred to Capital A/C	1,96,855	By Accrued Interest on Loan	500
	2,79,040		**2,79,040**

BALANCE SHEET

Liabilities		₹	Assets		₹
Current Liabilities			Current Assets		
Creditors	1,52,630		Insurance Claim		8,000
Add: Omitted Purchases	6,720	1,59,350	Cash in Hand and at Bank		50,000
Bill Payable		20,250	Closing stock		62,750
Outstanding Wages		10,000	Debtors	2,51,000	
General Expenses Outstanding		3,500	Less: Further Bad Debts	2,500	2,48,500
Capital			Loan to Ram	15,000	
Opening Balance	50,000		Add: Accrued Interest	500	15,500
Add: Net Profit for the Year	1,98,855		Input SGST		320
	2,46,885		Fixed Assets		
Less: Drawings	22,260	2,24,595	Furniture	36,250	
			Less: Depreciation	3,625	32,625
		4,17,695			4,17,695

Notes:

1. Following entry will be passed to record omitted purchases:

   Purchases A/C Dr. ₹6,000
   Input IGST A/c Dr. ₹720 To
   Supplier (Creditor) ₹6,720

2. Since the remaining debtors are not doubtful of recovery, balance in Provision for Doubtful Debts is written back (credited) to Profit and Loss Account.
3. Input CGST, Input SGST and Input IGST shall be first adjusted against Output CGST, Output SGST and Output IGST respectively. Thereafter, balance in Input CGST (₹ 1,000) shall be adjusted against Output IGST and balance (₹680) in Output IGST shall be adjusted against Input SGST leaving a balance to ₹ 320 in Input SGST Account.

Question: 18. **Trial Balance as on 31 march 2017**

	Dr.	Cr.
Insurance	1,200	
Salary	11,000	
Building	3,00,000	
Wages	20,000	

Adj: (i) Insurance includes a premium of Rs. 170 on a policy, expiring on 30st September 2017.
(ii) Salary for the month of march 2017 is outstanding.
(iii) Wages includes Rs. 5,000 paid on erection of a cycle shed.
(iv) Charge depreciation @ 10% p.a. on building.

Question : **18GST.(18 question has been repeated 2 times. Read carefully. It has been explained in last video class)**. From the following Trial Balance, prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as at that date:

Debit Balances	**(₹)**	**Credit Balances**	**(₹)**
Salaries	10,223	Sales	66,420
Bills Receivable	6,377	Capital	50,000
Investments	40,000	Provision for Doubtful Debts	2,500
Furniture	12,000	10% Loan (1.10.2018)	10,000
Opening Stock	4,500	Discount Received	400
Purchases	30,000	Sundry Creditor	9,300
Sundry Debtors	20,000	Bills Payable	5,000
Interest on Loan	400	Outstanding Salaries	500
Insurance Premium	900	Bad Debts Recovered	200
Wages	4,600	Interest on Investment	2,000
Rent	1,520	Trading Commission	7,000
Bad Debts	1,200	Output CGST	10,000
Carriage Outwards	600	Output SGST	10,000
Cash at Bank	12,000	Output IGST	8,000
Depreciation on Furniture	2,500		
Accrued Commission	1,000		
Advertisement	7,500		
input CGST	8,000		
input SGST	8,000		
input IGST	10,000		
	1,53,320		**1,53,320**

Adjustments:

(i) Closing Stock ₹ 6,000
(ii) Goods costing ₹ 1,000 were distributed as free samples while goods costing ₹ 500 were taken by the proprietor for personal use. These goods were purchased paying CGST and SGST @ 6% each.
(iii) A credit sale of ₹ 2,000 plus IGST @12% was not recorded in the sales book.
(iv) Closing Stock included goods costing ₹ 1,000 which were sold and recorded as sales but not delivered to the customer.
(v) Maintain provision for Doubtful Debts @ 5%.
(vi) Manager is entitled to commission @ 10% of net profit after charging such commission.

Question: 19. **Trial Balance as on 31 March,2017**

	Dr.	Cr.
Gross profit		2,50,000
Stock	10,000	
Capital		6,00,000
Indirect expenses	40,000	
Reserve	---	50,000

Adj: (i) owner to get a salary of Rs. 12,000 P.a.
(ii) 10% of net profit is to be credited to Reserve.
(iii) It was discovered in April 16, that stock sheets as on 31 March, 16 were overcast by Rs. 1,000. However no entry was passed in April, 16.

Question: 20. **Trial Balance as on 31 March,2017**

	Dr.	Cr.
Loan from Vinod @ 10% (as on 1 Oct. 2016)		3,00,000
Interest paid	8,000	
Loan to Ram @ 15% (as on 1 July 2016)	2,00,000	
Interest received		14,000

Question: 21.

	Dr.	Cr.
Purchases	60,000	
Capital		3,00,000

Adj: (i) Goods costing Rs. 10,000 were used for distribution to customer as free sample.
(ii) Goods costing Rs. 5,000 (selling price Rs. 8,000) were used by proprietor for his personal purpose.

Question: 22. (HAI HUM MEIN DUM) Trail Balance as on 31 March,2017

	Dr.	Cr
Opening stock	80,000	
Purchases	7,00,000	
Apprentice Premium		40,000
Machinery	4,00,000	
Loose tools	60,000	
Equipment	3,00,000	
Wages	20,000	
Debtors	80,000	
Sales		4,50,000
Creditors		30,000
Land and building	2,00,000	
Investments	50,000	
Capital		10,00,000

Adjustments

(I) It was discovered in April, 2016,,that stock sheets as on 31st March 2016 were overcast by Rs. 1000. However, no entry was passed in April 2016.
(II) Apprentice premium was unexpired to the extent of Rs 8,500.
(III) A new machine was installed on 31st Dec. 2016, costing Rs 14,000 but it was not recorded in the books and no payment was made for it. Wages Rs 1,000 paid for its erection has been debited to wages account.
(IV) Loose tools were valued at Rs. 56,000 on 31st March 2017.
(V) Equipments were valued at Rs 3,20,000.
(VI) Value of stock as on 31-03-2017 was Rs. 39,000. This includes goods return by customers on 31-03-2017 to the value of Rs. 1,500 for which no entry has been passed in the books,
(VII) Sundry debtors include Rs. 2,000 due from Robert and Sundry creditor includes Rs. 1,000 due to him.
(VIII) Building worth Rs.35,000 purchased on 1-4-2015 was wrongly written off against Profit & Loss account. This asset is to be brought into account on 1-4-2016 taking depreciation at 10% per annum on straight line basis up to 31-3-2016.
(IX) Investments were sold at 10% profit, but the entire sales proceeds have been taken as sales.
(X) Commission is payable at 2% on sales.
(XI) Received Rs 6,000 Worth of goods on 27th March 2017 but the invoice of purchase was not recorded in Purchase book.

Question: 23. Mr. X carries on retail business and his trial balance on March 31, 2013 was as follows :

	Dr.	Cr.
Purchases	565625	
Sales		7,06,650
Return inward	4,250	------
Return outward	----	3,120
Provision for doubtful debts	-----	5,200
Sundry debtors	38,200	----
Sundry Creditors	-----	25,526
Bills Payable (Promissory note to be paid)	-----	8,950
Stock (01-04-12)	56,725	-----
Wages	20,137	-----
Salaries	18,575	-----
Furniture	15,075	-----
Alternation to shop	4,500	-----
Postage, Ins. Etc.	13,226	-----

Heating & Lighting	2,350	-----
Trade Exp.	10,314	-----
Rent, Rates & Taxes	13,517	-----
Bad Debts	525	-----
Loan at 15% to Mr. Vinod (1st Dec. 2012)	3,000	-----
Investment (at cost)	11,500	-----
Dividend from investment	----	1,825
Prepaid insurance	524	-----
Cash in hand and at bank	15,752	-----
Bills Receivable (Amt. due on Promissory Notes)	19,070	-----
Capital Account	----	77,000
Drawings	16,000	-----
Outstanding Wages	----	2,019
Rent. Accrued but not paid	---	750
Dep. On Furniture	1,675	----
Additions to Furniture	500	---
Total	8,31,040	8,31,040

Prepare Trading & Profit and Loss Account as on 31-03-2013 and Balance-sheet as on that date having regard to the following information:-

1. Sundry Debtors include an item of Rs. 250 for Goods Supplied to the proprietor and an item of Rs.600 due from a Customer who has become insolvent.
2. Provision for Doubtful Debt is to be maintained at 5% of sundry debtors.
3. 1/5th of the alteration to the shop is to be written off.
4. Goods to the value of Rs. 1000 have been destroyed by fire and the insurance company has admitted the claim for Rs 700.
5. Bills Receivable includes a dishonoured promissory note for Rs.2,650
6. Stock at end of the year was Rs. 60,520.
7. Intimation from the bank that a customer's cheque for Rs. 1,000 had been dishonoured is still to be entered in the books.

Question: 24. From the following Trial Balance, Extracted from the books of Mr. Shyam, Prepare a Trading and Profit and Loss Account for the year ended 31st March 2003 and a Balance Sheet as on that date.

	Dr.	**Cr.**
Shyam's Capital A/c	----	1,80,000
Shyam's Drawing A/C	32,960	----
Land and Building	50,000	---
Plant & Machinery	28,540	-----
Furniture & fixture	12,500	----
Carriage Inward	8,740	---
Wages (Manf.)	42,940	-----
Salaries	39,340	-----
Bad Debts Provision	-----	3,940
Sale	----	2,82,460
Sales Return	3,520	-----
Bank Charges	280	----
Coal, Gas & Water	4,440	---
Rates & Taxes	1,680	-----
Discount account (Balance)	----	240
Purchase (adjusted)	61,460	-----
Bills Receivable	12,540	----
Trade Expenses	3,980	---
Sundry Debtors	75,600	-----
Sundry Creditors	----	24,340
Stock (31-3-03)	88,780	----
Apprentice Premium	----	6,000
Fire Insurance	980	-----
Cash at bank	26,000	----
Cash in Hand	2,280	---
Bad debts	420	-----
Total	**4,96,980**	**4,96,980**

Charge depreciation on land & building @ 2.5% on plant & machinery @10% and on furniture & fixture @ 10% Make a provision of 5% on the sundry debtors for Bad debts. The Bank has intimated that a cheque for Rs. 800 received from customer has been dishonoured. The customer is in difficulties and it is expected that he would be able to pay 60 % of the claims on him. Carry forward the following unexpired amounts:—

i.) Fire Insurance Rs. 250

ii.) Rates & Taxes Rs. 480
iii.) Apprentice Premium Rs. 3,800

Trade expenses amounting to Rs. 430 have not yet been paid. Wages include Rs.500 spent on the installation of new machinery on 1st April 2002. Allow 10 % interest on capital but not charged on drawing.

Answer:

Trading and Profit And Loss A/c

PARTICULAR		AMOUNT	PARTICULAR		AMOUNT
To Purchase (Adjusted)		61460	By sales 282460		
To Wages	42940		(-) return 3520		278940
(-) Installment	500	42440			
To Carriage Inward		8740			
To Coal and Gas		4440			
To gross profit		161860			
		278940			**278940**
To Depreciation On building		1250	By gross profit		161860
To Depreciation On Plant		2904	By Discount Received		240
To Depreciation On Furniture		1250	By Apprentice Premium	6000	
To salary		39340	(-) Advance	3800	2200
To Provision For Bad Debts	4100				
(-) Old Provision	3940	160			
To Bank Charge		280			
To Rent & Rates	1680				
(-) Prepaid	480	1200			
To Trade Expense	3980				
(+) Outstanding	430	4410			
To Fire Insurance	980				
(-) Advance	250	730			
To Bad Debts		420			
To Interest on capital		18000			
To Net Profit		94356			
		166500			166500

Balance Sheet as on 31-3-2003

LIABILITIES		AMOUNT	ASSETS	AMOUNT
Capital	180000		Land and building	48750
(-) Drawing	32960		Plant	26136
(+) Interest.on capital	18000		Furniture	11250
(+) Net profit	94356	259396	Debtors	72300
Outstanding Trade Expense		430	Bank	25200
Sundry creditors		24340	Prepaid Rates	480
Advance Apprentice Premium		3800	Bill Receivable	12540
			Stock	88780
			Advance Insurance	250
			Cash	2280
		287966		287966

Question: 25. From the following figure extracted from the books of Mr. P. you are required to prepare a Trading and Profit and Loss Account for the year ended 31- 03-2017 and a Balance Sheet as on that date after making necessary adjustment.

Mr. P's Capital	2,58,000	Bills Payable	5,000
Mr. P's Drawing	42,000	Stock (01-04-16)	49,175
Purchase	1,96,000	Wages	62,000
Freehold Properties	60,000	Sundry Creditors	40,000
Plant & Machinery	1,00,000	Postage & Telegram	1,400
Return Outward	7,000	Insurance Charges	3,200
Salaries	42,000	Gas & Fuel	2,700
Office Expenses	12,500	Bad Debts	600
Office Furniture & Fixture	25,000	Office Rent	12,600
Discount A/c (Dr.)	1,200	Freight & duty	9,000
Sundry debtors	26,600	Loose tools	7,000
Loan to Mr. D @ 15% p.a.		Factory Lighting	1,600
Balance on 01-04-16	40,000	Prov. For doubtful Debts.	800
Cash at Bank	26,600	Interest on loan to Mr. D	3,000
		Cash in Hand	3,625

ADJUSTMENTS:

1. Stock on 31-3-17 was valued at Rs. 66,000
2. Wages Rs. 4,600 and Salaries Rs. 3,600 were outstanding.
3. Insurance Prepaid was Rs. 800.
4. A new machine was installed on 31st Dec. 2016, costing Rs 14,000 but it was not recorded in the books and no payment was made for it. Wages Rs 1,000 paid for its erection has been debited to wages account.
5. Loose tools were valued at Rs. 5,600 on 31st March 17.
6. Depreciate Plant and Machinery by 10 % p.a. Furniture & fixture by 7.5 % p.a and Freehold Property by 2%p.a.
7. Of the Sundry Debtors Rs 600 are bad and should be written off. Maintain Provision of 5 % on Sundry Debtors for doubtful debts, and 2 % for discount on Debtors and a reserve of 2 % for discount on Sundry creditors.
8. The Manager is entitled to a commission of 5 % of net profit before charging such commission.

Hint :Note:-- Where a regular trial balance is not given, it is advisable to first make out trial balance to be sure that there is no difference in books or to ascertain a figure that may be missing. **(CA FOUNDATION)**

Question: 26. From the following Trial Balance of Bannerji, Prepare the Final Accounts for the year ended 31st March 2017 and the Balance Sheet as at that date.

	Dr.		**Cr.**
Land & Building	50,000	Sales	3,85,000
Purchases(adjusted)	2,10,000	Capital account	1,15,000
Stock as on 31-3-17	45,000	Chatterji Loan A/c	
Sales Return	1,500	(taken on 1.10.16 @ 18% p.a)	25,000
Wages	45,300	Commission	1,500
Salaries	39,000	Sundry Creditors	25,000
Office Expenses	15,400	Bills Payable	12,350
Carriage Inward	1,200	Expenses Payable	3,300
Carriage outward	2,000	Purchase Return	2,500
Discounts	750	Discount	1,200
Bad Debts	1,200		
Insurance	1,500		
Plant & Machinery	50,000		
Furniture & Fixture	20,000		
Bills Receivable	20,000		
Sundry Debtors	40,000		
Cash in Hand	1,500		
Cash at Bank	14,500		
Office Equipment	12,000		
Total	**5,70,850**	**Total**	**5,70,850**

It was the practice of Bannerji to value stock at 10 % below cost. The opening stock on 01.04.16 was Rs. 49500. Bannerji desires that the final statement be drawn up according to the cost of the stock.

The following adjustments are also required:-

(I) Depreciate Land & Building @ 6%, Plant & Machinery @10%, Office Equipment @ 20% and Furniture & Fixture @15%.
(II) Raise a bad & doubtful debt provision of 1.25% on sundry debtors.
(III) Insurance Premium includes Rs. 250 paid in advance.
(IV) Provide interest on capital @ 10 % p.a. and salary to Bannerji @ Rs. 15000 p.a.
(V) 10 % of the final profit is to be kept in general reserve.

Question: 27. The following is the Trial Balance of Shri Arihant as on 31st December 1999:

	Dr. (Rs.)	**Cr. (Rs.)**
Capital		14,00,000
Drawings	75,000	--------
Opening stock	80,000	---------
Purchases	16,20,000	---------
Freight on purchase	15,000	----------
Wages	1,10,000	----------
Sales	----	25,00,000
Salaries	1,00,000	----------
Traveling expenses	23,000	---------
Miscellaneous expenses	35,000	-------
Printing and stationary	27,000	--------
Advertisement expenses	25,000	----------
Postage and telegrams	13,000	----------
Discounts	7,600	14,500
Bad debts written off (after adjusting recovery		----------
of bad debts of Rs. 6,000 written off in 1997)		----------

Building.	14,000	------
Machinery	10,00,000	-------
Furniture	75,000	--------
Debtors	40,000	-------
Provision for doubtful debts	1,50,000	-------
Creditors		19,000
Investments (12% purchased on 1-10-99)		1,60,000
Bank balance	6,00,000	-------
	83,900	------
Total	**40,93,500**	**40,93,500**

Adjustments:

(I) Closing stock Rs. 2,25,000.

(II) Goods worth Rs. 5,000 were taken for personal use, but no entry was made in the books.

(III) Machinery worth Rs. 35,000 purchased on 1-1-97 was wrongly written off against Profit & Loss account. This asset is to be brought into account on 1-1-99 taking depreciation at 10% per annum on straight line basis upto 31-12-98.

(IV) Depreciate building at 2-1/2% P.a., Machinery at 10% p.a. and Furniture at 10% p.a

(V) Provision for doubtful debts should be 6% on Debtors.

(VI) The manager is entitled to a commission of 5% of Net Profit after charging his commission.

Prepare trading and profit and loss account for the year ending 31st December 1999 and a balance sheet as at the date.

Question: 28. **The following is the Trail Balance of K on 31st March, 2000.**

	Dr. (Rs)	**Cr. (Rs)**
Capital	-----	8,00,000
Drawings	60,000	---
Opening stock	75,000	------
Purchase	15,95,000	-----
Freight on purchase	25,000	------
Wages (11 months upto 29-2-2000)	66,000	-------
Sales	----	23,10,000
Salaries	1,40,000	------
Postage, Telegrams, Telephones	12,000	----
Printing & Stationary	18,000	-------
Miscellaneous Expenses	30,000	-------
Creditors	----	3,00,000
Investments	1,00,000	------
Discount received	----	15,000
Debtors	2,50,000	-----
Bad debts	15,000	-----
Provision for debts	------	8,000
Building	3,00,000	-----
Machinery	5,00,000	------
Furniture	40,000	-----
Commission on Sales	45,000	------
Interest on Investments	----	12,000
Insurance(yearly upto 31-7-2000)	24,000	----
Bank Balance	1,50,000	------
	34,45,000	**34,45,000**

Adjustments:

1. Closing stock Rs 2,25000
2. Machinery worth Rs. 45,000 purchased on 1-10-99 was shown as purchases. Freight paid on the Machinery was Rs. 5,000, which is included in Freight on Purchase.
3. Commission is payable at 2.5% on sales.
4. Investments were sold at 10% profit, but the entire sales proceeds have been taken as sales.
5. Write off Bad Debts Rs 10,000 and create a provision for Doubtful debts at 5% of Debtors.
6. Depreciate Building by 2.5% p.a. and machinery and furniture at 10% p.a.

Prepare Trading and Profit & Loss A/c for year ending 31st March, 2000 and a Balance Sheet as on that date.

Answer:

Trading and Profit and Loss account of K For the year ended 31st March, 2000

Particular		Rs.	Particular		Rs
Opening Stock		75,000	By Sales	23,10,000	
To Purchase	15,95,000		Less: Sale of		
Less: Transfer to			Investments	1,10,000	22,00,000
Machinery A/c	45,000	15,50,000			
To Freight on Purchase	25,000				
Less: Transfer to					
Machinery A/C	5,000	20,000			
To Wages	66,000				
Add: Outstanding	6,000	72,000	By Closing stock		2,25,000
To Gross Profit c/d		**7,08,000**			
		24,25,000			**24,25,000**
To Salaries		1,40,000	**By Gross profit b/d**		**7,08,000**
To Postage Telegrams, Telephone		12,000	By interest of investment		12,000
To Printing & Stationary		18,000	By Profit on sale of investment		10,000
To Miscellaneous expenses		30,000	By Discount received		15,000
To Commission on Sales	45,000				
Add: Outstanding	10,000	55,000			
To Insurance	24,000				
Less: Prepaid	8,000	16,000			
To Provision for bad &Doubtful debts::					
Bad debts	15,000				
Add: Written off	10,000				
Add: Provision for doubtful					
Debts (5% of Rs 240000)	12,000				
	37,000				
less: Old provision	8,000	29,000			
To Depreciation:					
Building	7,500				
Machinery (50000+2500)	52,500				
Furniture	4,000	64,000			
To Net Profit		3,81,000			
Total		**7,45,000**	**Total**		**7,45,000**

Balance Sheet of K as at 31st March 2000

Liabilities		**Rs**	**Assets**		**Rs**
Capital	8,00,000		Building	3,00,000	
Add: Profit	3,81,000		**Less:** Depreciation	7,500	2,92,500
Less: Drawing	60,000	11,21,000	Machinery	5,00,000	
Creditors		3,00,000	Additions	+ 50,000	
Outstanding Exp.				5,50,000	
Wages	6,000		Less: Depreciation	52,500	4,97,500
Commission	10,000	16,000	Furniture	40,000	
			Less: depreciation	4,000	36,000
			Debtors	2,50,000	
			Less: Bad debts	10,000	
			less: Provision for		
			doubtful debts	12,000	2,28,000
			Prepaid insurance		8,000
			Stock		2,25,000
			Bank balance		1,50,000
		14,37,000			**14,37,000**

Question: 29. Following is the Trail Balance of Ram as on 31st March, 2019.

Heads of Accounts	Dr. (₹)	Cr. (₹)
Purchases	1,50,000	
Debtors	2,00,000	
Interest earned		4,000
Salaries	30,000	
Sales		3,21,000
Purchases Return		5,000
Wages	20,000	
Rent	15,000	
Sales Return	10,000	
Bad Debts Written off	7,000	
Creditors		1,20,000
Capital		1,00,000
Drawings	24,000	
Provision for Doubtful Debts		6,000
Printing and Stationery	8,000	
Insurance	12,000	
Opening Stock	50,000	
Office Expenses	12,000	
Furniture and Fittings	20,000	
Provision for Depreciation		2,000
Total	5,58,000	5,58,000

Prepare Trading and profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as at that time date for making the following adjustment:

(i) Depreciation Furniture and Fittings by 10% on original cost

(ii) Make a Provision for Doubtful Debts equal to 5% of Debtors.

(iii) Salaries for the month of March amounted to ₹ 3,000 were unpaid which must be provided for. The balance in the amount includes ₹ 2,000 paid in advances.

(iv) Insurance is prepaid to the extent of ₹ 2,000,

(v) Provide ₹ 8,000 for office expenses.

(vi) Stock costing ₹ 6,000 was taken by Ram for his personal use, cost of which has not been adjusted in the book of account.

(vii) Closing Stock valued at ₹ 68,000 (Net Realisable Value (Market Value) ₹ 60,000.

Solution TRADING AND PROFIT AND LOSS ACCOUNT For the year ended 31st March, 2019

Particulars		₹	Particulars		₹
To Opening Stock		50,000	By Sales	3,21,000	
To Purchases	1,50,000		Less: Sales Return	10,000	3,11,000
Less: Purchases Return	5,000		By Closing Stock		60,000
	1,45,000				
Less: For Personal Use	6,000	1,39,000			
To Wages		20,000			
To Gross Profit c/d		1,62,000			
		3,71,000			3,71,000
To Salaries	30,000		By Gross Profit b/d		1,62,000
Add: Outstanding Salaries	3,000		By Interest earned		4,000
	33,000				
Less: Paid in Advance	2,000	31,000			
To Rent		15,000			
To Bad Debts	7,000				
Add: New Provision	10,000				
	17,000				
Less: Old Provision	6,000				
		11,000			
To Printing and Stationery		8,000			
To Insurance	12,000				
Less: Prepaid	2,000				
To Office Expenses	12,000	10,000			
Add: Outstanding	8,000				
		20,000			
To Provision for Depreciation on Furniture and Fittings		2,000			
To Net Profit transferred to Capital A/C		69,000			
		1,66,000			1,66,000

BALANCE SHEET As at 31st March, 2019

Liabilities		₹	Assets		₹
Current liabilities			**Current Assets**		
Sundry Creditors		1,20,000	Stock (Note)		60,000
Outstanding Salaries		3,000	Debtors	2,00,000	
Outstanding Office Expenses		8,000	Less: Provision for Doubt Debts	10,000	1,90,000
Capital			Prepaid Salaries		2,000
Opening Balance	1,00,000		Prepaid Insurance		2,000
Add: Net Profit	69,000		**Fixed Assets**		
	1,69,000		Furniture and Fittings	20,000	
Less: Drawing 24,000			Less: Provision for Depreciation (₹2,000 + ₹2,000)	4,000	16,000
Stock for Personal use 6,000	30,000	1,39,000			
		2,70,000			2,70,000

Note: According to Accounting Standard-2 issued by ICAI Closing Stock is valued at lower of cost or net realizable value (Market Value).

Question: 30. Mahindra Traders operates in an industry that has a high rate of bad debts. On 31st March 2012, the Accounts Receivables showed a balance of Rs. 7,50,000 before any year end adjustment and the balance in the Reserve of doubtful debts was Rs. 37,500. The year-end balance in the Reserve for Doubtful Debts A/c will be based on the following ageing schedule.

Days outstanding	Amount (Rs.)	Probability of collection
Less than 16	4,50,000	0.99
16 – 30	1,50,000	0.94
31 – 45	75,000	0.80
46 – 60	45,000	0.65
61 – 75	15,000	0.50
Over 75	15,000	0.00

Find out the appropriate balance in the Reserve for Doubtful Debts Account as on 31st March 2012. Show how Debtors balance be shown in the Balance Sheet. Calculate the effect of year end adjustment on Account of Reserve for Doubtful Debts.

Question: 31. A property dealer owned many properties which it had acquired by taking bank loans. There were separate loan agreements for different properties. In some cases, interest was paid in advance and in other cases it was payable in arrears. These properties were let out to different tenants on various agreements. Some agreements provided for rentals in advance while the others provided for rent payable in arrears. The dealer has given the following balances:

	31-03-2011	31-03-2012
Interest payable	12,000	14,500
Interest prepaid	8,000	6,400
Rentals due from tenants	15,000	19,000
Rentals received in advance	3,000	2,500

During the year 2011-12, the amount of interest transferred to P & L A/c was Rs. 56,000 and cash collected from tenants for rentals was Rs. 1,16,000.
You are required to prepare Interest A/c and Rental Income A/c for the year ended 2011-12

Question: 32.(THIS QUESTON SHOULD BE SOLVED AFTER FINISHING WHOLE BOOK)

Mr. Gavaskar is the proprietor of a large business. The following Trial Balance was prepared from his books as on 30thJune, 2012:

	Rs.		**Rs.**
Land & Buildings	80,000	12% Bank Loan (U.B.I.)	1,00,000
Cash at Bank	50,000	(No movement during the year)	
Motor Car	40,000	Capital Accounts	1,50,000
Furniture	20,000	Bills Payable	10,000
Sundry Debtors	1,20,000	Sundry Creditors	1,30,000
Cash in hand	10,000	Returns Outward	8,000
Stock (1.7.11)	1,10,000	Discount Received	2,000
Return Inward	10,000	Sales	9,00,000
Printing & Stationery	4,000		
Drawings	16,000		
Bills Receivable	10,000		
Travelling Expenses	12,000		
Discount Allowed	4,000		
Miscellaneous Expenses	38,000		
Postage	2,000		
Joint Venture Suspense A/c	2,000		
Investments (Market value			
Rs. 28,000)	30,000		
Interest on Bank Loan	8,000		
Salaries (including advance			
For Rs. 4,000)	54,000		
Entertainment Expenses	4,000		
Purchases	6,50,000		
Carriage Inwards	8,000		
Advertisements	18,000		
	13,00,000		**13,00,000**

Additional Information:

1. On 2nd January, 2012, Mr. Gavaskar entered into a Joint Venture with Mr. Shastri with an agreement to share the profits and losses equally. Shastri supplied goods totalling Rs. 60,000 which wrongly passed through the Purchase Day Book. The goods were sold for cash at profit of 25% on sales and stood credited to Sales Account. Shastri had earlier incurred an amount of Rs. 4,000 on account of Freight ad Insurance. Joint Venture Suspense Account represents expenses incurred by Gavaskar on Joint Venture.
2. Bills Receivable for Rs. 8,000 endorsed on 21st March, 2012 in favour of creditors were subsequently dishonoured but no entry for the dishonour has been passed.
3. Three cheques of Rs. 3,000, Rs. 4,000 and Rs. 6,000 issued to parties on 29th June, 2012, were lying unpresented on 30th June, 2012.
4. Sales included a sum of Rs. 60,000 received from sale of goods on behalf of Mr. Kapil, the cost of these goods to Mr. Kapil was Rs. 50,000. Mr. Gavaskar is entitled to a commission of 5% on sales, for which effect should be given and reimbursement of selling expenses of Rs. 2,000 were debited to Miscellaneous Expenses Account.
5. 1/3rd of the advertisement expenses are to be carried forward.
6. Of the Debtors a sum of Rs. 2,000 is to be written off as bad debt. Create provision for doubtful debts @ 2%.
7. Depreciate fixed assets by 10% except Motor Car which is to be depreciated at 20%.
8. Value of Stock at the end is Rs. 90,000.
9. During the year some goods (Invoiced at Rs. 1,00,000) were sent to sundry customers on sales on approval. On 30th June, 2012 of these goods Rs. 20,000 remained with customers as the period of approval did not expire as yet. Proper adjustment should be made in respect of the above. Mr.Gavaskar makes his invoices at cost plus 25%.

You are required to prepare Trading and Profit & Loss Account for the year ended 30th June, 2012 and a Balance Sheet as at 30th June, 2012.

Answer : Trading A/c for the year ended 30th June, 2012

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To, Opening Stock		1,10,000	By, Sales	9,00,000	
To, Purchase A/c	6,50,000		Less : Return Inward	10,000	
Less : Return Outward	8,000			8,90,000	
	6,42,000		Less : Joint Venture sales	80,000	
Less : Supplies by			Less : Sales on	8,10,000	
Mr. Sastri	60,000	5,82,000	Consignment	60,000	7,50,000
To, Carriage Inward		8,000			
			By, Closing Stock	90,000	
To, Profit & Loss A/c		1,56,000	Add : Goods sold on		
- G. P. transferred			Approval	16,000	1,06,000
			[Rs. 20,000 ×(100/125)]		
		8,56,000			8,56,000

Profit & Loss A/c

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To, Printing & Stationery		4,000	By, Trading A/c		1,56,000
To, Travelling Expenses		12,000	- G. P. transferred		
To, Discount Allowed		4,000	By, Discount Received		2,000
To, Miscellaneous			By, Profit on Joint Venture		7,000
Expenses	38,000		(W.N. 1)		
Less : Consignment			By, Commission Received		3,000
Expenses	2,000	36,000	(Rs.60,000 × 5%)		
To, Postage		2,000			
To, Interest on Bank Loan		8,000			
To, Salaries	54,000				
Less : Advance Salary	4,000	50,000			
To, Entertainment					
Expenses		4,000			
To, Advertisement		18,000			
(W.N. 3)					
To, Bad Debts		2,000			
To, Provision for Doubtful					
Debts		2,520			

To, Depreciation:					
Land & Building	8,000				
Motor Car	8,000				
Furniture	2,000	18,000			
To, Capital A/c		7,480			
- N. P. transferred					
		1,68,000			1,68,000

Balance Sheet as at 30th June, 2012

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	1,50,000		Land & Building	80,000	
Less: Drawings	16,000		Less: Depreciation @ 10%		
Add: Net Profit	1,34,000			8,000	72,000
	7,480	1,41,480	Machinery	40,000	
12% Bank Loan (U.B.I.)		1,00,000	Less: Depreciation @ 20%		
				8,000	32,000
Creditors	1,30,000			20,000	
Add: Bill endorsed			Furniture		
Dishonoured					
	8,000		Less: Depreciation @ 10%	2,000	18,000
	1,38,000		Investment		30,000
			Stock		1,06,000
Less : Supplies by Mr. Sastri	60,000	78,000	Debtors	1,20,000	
		55,000	Add: Bill endorsed dishonoured		
Consignment Creditors				8,000	
Amount due to Mr. Sastri		71,000		1,28,000	
			Less: Return Inward not		
Bills Payable		10,000	Recorded		
				2,000	
				1,26,000	
			Less: Provision for Bad Debts		
				2,520	1,23,480
					10,000
			Bills Receivable		50,000
			Cash at Bank		10,000
			Cash in hand		4,000
			Advance Salary		
		4,55,480			4,55,480

Working Note **In the books of Mr. Gavaskar Joint Venture Account**

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To, Mr. Sastri A/c		60,000	By, Cash A/c		80,000
To, Mr. Sastri A/c		4,000	(Sales Proceeds)		
- Freight & Insurance			[Rs.60,000 × (100/75)]		
To, Bank A/c		2,000			
- Expenses					
To, Profit on Venture :					
Mr. Sastri A/c	7,000				
Profit & Loss A/c	7,000	14,000			
		80,000			80,000

Mr. Sastri Account **Cr.**

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
			By, Joint Venture A/c		60,000
			By, Joint Venture A/c		4,000
To, Balance c/d		71,000	- Freight & Insurance		
			By, Joint Venture A/c		7,000
		71,000	- Share of Profit		71,000

3. After the date on which AS 26 became mandatory, the expenditure incurred on intangible items would have to be expensed off when they are incurred . So, the Advertisement Expense is not carried forward to the next year and the full amount is shown in the Profit & Loss A/c.

Question: 33. R retired from a company and started a business in Chennai. On retirement he got Rs. 1,00,000 from his employer which he invested in his business on 1.1.12. He got from Life Insurance Corporation Rs. 20,000 on the maturity of his policy which he also invested in his business. He draws Rs. 1,000 for his personal expenses every month from 30thApril, 2012. The following figures are extracted from his books on 31stDecember, 2012 :

	Rs.		Rs.
Purchases	3,10,000	Bad Debts	2,000
Cartage	5,000	Sundry Debtors	45,000
Salaries & Wages	24,000	Bills Receivable	30,000
Electricity Charges	4,500	Cash in hand	8,997
Travelling	8,900	Sales	3,00,000
Telephone	4,300	Income from Personal Investments	20,000
Advertisement	10,000	Creditors	85,000
Repairs & Renewal	3,303	Bank Overdraft	80,000
Plant & Machinery	1,50,000	Buildings(Cr.)	10,000

You are requested to prepare a Trading and Profit & Loss Account of the business for the period ended31stDecember, 2012 and also the Balance Sheet as on that date after taking into consideration the following further information :

(1) Purchases include Rs. 10,000 representing the value of Furniture purchased.
(2) Rs. 4,000 representing erection wages on Plant & Machinery are debited to Salaries & Wages.
(3) Electricity charges include Rs. 2,500 paid as deposits to Electric Supply Company. There are bills outstanding to the extent of Rs. 500.
(4) Advertisement includes Rs. 4,000 representing the cost of a Neon Sign.
(5) A dishonoured bill of Rs. 5,000 stands debited to the debtor. 50% thereof considered doubtful and has to be provided accordingly.
(6) A debtor of Rs. 1,000 was declared insolvent on 30.12.12 and it is expected that nothing would be recovered from his estate.
(7) Provide 5% discount on net realisable debtors.
(8) R received Rs. 25,000 in respect of a business with B. The sum received stood credited to Sundry Creditors. It is noted that a sum of Rs. 5,000 was due to R as his share of profit from that business.
(9) During the period there was a fire damaging stock costing Rs. 50,000. The damaged goods were sold for Rs. 20,000. This sum of Rs. 20,000 is included in Sales. The Insurance Company paid Rs. 25,000towards the loss of stock. The godown containing the stock was also damaged to the extent of Rs. 15,000, which has also been paid by the Insurance Company. The total amount received from the Insurance Company was credited to Building Account.
(10) Bank overdraft represents 80% of the drawing power.
(11) The bank overdraft was given on the hypothecation of stock-in-trade. You are informed that the bank had a margin of 331/3 %.
(12) The manager of the business is entitled to a commission of 5% on the gross profit.
(13) Provide 10% depreciation on Plant & Machinery and on Furniture & Fittings and 5% on Building. Depreciation to be provided on closing balance for full year

CHAPTER 8. PARTNERSHIP ACCOUNTS

Concept of profit and loss appropriation account

Question:1 Raj and Vikrant formed a partnership on 1st Jan, 2002. They agreed that out of profits:-
Raj should receive a salary of Rs. 5,000 p.m. Interest on capitals should be allowed on capitals @ 6% p.a.

Remaining profits to be divided equally.

Raj contributed a capital of Rs. 5,00,000 on 1st Jan 2002 but Vikrant brought in his capital of Rs. 10,00,000 on 1st April 2002. During the year drawings were: Raj – Rs. 1,50,000 and Vikrant Rs. 2,00,000.

Profits before the above noted salary and interest was Rs. 5,00,000. Prepare Profit and Loss Appropriation Account and Capital Account of the Partners.

[Ans: Capital Accounts: Pravat – 6,22,500; Vikrant – 10,27,500]

Computation of interest on drawings

Question:2 X withdrew Rs. 10,000 per month regularly at the end of every month and Y withdrew Rs. 5,000 per month at the end of every month for whole year. Calculate interest on drawings @ 10% p.a.

Question:3 X has withdrawn Rs. 10,000 at the end of every Quarter. Calculate interest on drawings @ 10% p.a

Question:4 The following drawings were made by a partner during the year 2007.

Date	Amount
1 Jan	10,000
15 Mar.	5,000
1 Aug.	15,000
31 Oct	20,000
31 Dec	20,000

Calculate interest on drawings @ 10% p.a.

Computation of capital ratio

Question:5 X and Y started business on 1st January, 2000 with Rs. 10.000 and Rs. 6,000 as capital respectively. They agreed to share profits in the capital ratio. With the following details, calculate capital ratio.

	Capita! *Introduced*		Capital *withdrawn*	
	X	*Y*	*X*	*Y*
1st March	2,000	—	—	—
1st April	—	7,000	3,000	—
1st June	4,000	—	—	6,000
30th September	—	8,000	8,000	—

(Answer: Capital ratio between X and Y is 117: 117 or equally.)

Guarantee of profit to a partner

Question:6 Tom and Dom share profits and losses in the ratio of 3:2 and as form 1st January, 2000 they admit Com who is to have a tenth share of the profits with a guaranteed minimum of Rs. 15,000. Tom and Dom continue to share profits as before but agree to suffer any excess over 1/ 10th going to Com in the ratio of 4:1 respectively. The profits of the firm in respect of the year are Rs. 1,00,000. Prepare profit and loss appropriation account.

Question:7 Harish and Rakesh were partners sharing profits in the ratio of 3 : 1. They took Satish as a junior partner on a salary of Rs. 400 p.m. *plus* 10% of the profits after charging up salary and such 10% share of the profits or l/5th share of profit whichever is greater. Should the latter exceed the former, the excess is to be borne by Harish.

The profit for the year ended 31st December, 1995 after charging the salary were Rs. 52,800. Show profit and loss adjustment account.

Question:8 Mehra and Ratnam are in partnership with capitals of Rs. 28,000 and Rs, 14,000 respectively sharing profits and losses as to 2: 1. Interest on capital at 5% per annum and salary of Rs. 2,800 per annum to Ratnam are available.

Due to ill health Mehra ceased to take active part in the business with effect from 1st January 1992 and the following terms were agreed upon.

(1) That the manager Johar shall be taken as a partner with a capital of Rs. 5,000. He being entitled to a salary of Rs. 5,250 per annum, the excess over Rs. 2800 (the salary received by him as manager) to be borne by Mehra personally.
(2) That Ratnam shall get a salary of Rs. 3,500 per annum.
(3) That Johar shall be entitled to one-tenth share of profits and losses after charging interest on capital and partners' salaries.
(4) The interest on capital shall be allowed @ 5% p.a.

The net profit for the year ended 31st December 1992 was Rs. 22,400 before charging interest on capital and partners' salaries.
You are required to show the division of profits for the year 1992 between th **[C.A. Inter; B.Com. Bombay]**

Question:9 X and Y were partners with Rs. 20,000 as capital, contributed equally. They shared profits as follows:
Salary to X Rs. 1,000 p.a.
Salary to Y Rs. 500 p.a.
Remaining profits equally.
Due to certain circumstances, it became essential to make changes in the shares of X and *Y.* which was as follows:
Salary to X Rs. 500 p.a.
Salary to Y Rs. 1000 p.a.
Remaining profits equally.
The above new change was applicable subject to *Z* being introduced on 1st January 1997 as a partner (without capital) at a salary of Rs. 1,500 and one-seventh share in the profits and losses of the firm (after charging interest on capital and salaries) all of which was to be charged to X with the exception of Rs. 1,000 the amount of salary Z had formerly received as manager of the firm. X and *Y*are entitled to interest on capital at 5% p.a. The profit for the year ended 31st December, 1997 before charging interest on capital or partners' salary was Rs. 2,740.
Prepare profit and loss appropriation account. **[Adapted fromI.C.W.A.Inter.]**

Capital adjustments

Question:10 After the accounts of the partnership have been prepared, it is discovered that for the year 1999,2000,2001, interest has been credited on partner's capital accounts at 5% p.a., although no provision is made for interest in the partnership agreement. The amount involved are:

	1999	2000	2001
X	3,250	3,500	3,600
Y	2,100	2,000	2,150
Z	900	1,100	1,100

You are required to put through an adjusting entry as on 1st January 2002 assuming that the profits are shared in the following proportions:

	X	Y	Z
1999	½	3/10	1/5
2000	2/5	2/5	1/5
2001	3/10	2/5	3/10

(CA- Adapted)

X and *Y* were partners in a firm sharing profits in the ratio of 3 : 2. Following is the balance sheet of the firm as on 31st December 2000 :

BALANCE SHEET *as on 31st December, 2000*

	Rs.			Rs.
X's capital	30,000	Drawings:		
Y's capital	10,000	*X*	4,000	
		Y	2,000	6,000
				34,000
		Other assets		
	40,000			40,000

Profit for the year 2000 Rs. 8,000 was divided between the partners in the agreed ratio, but interest on capital at 5% and on drawings at 6% was inadvertently omitted. Adjust. Interest on drawings may be calculated on an average basis for 6 months.

Adjustment for wrong computation of past profit

Question:11 Weak, Able and Lazy are in partnership sharing profits and losses in the ratio of 2:1:1. It is agreed that interest on capital will be allowed @ 10% P.a. and interest on drawing will be charged @ 8% p.a. (No interest will be charged/allowed on current Accounts.)

The following are the particulars of Capital and Drawings Accounts of the partner:

	Weak	Able	Lazy
Capital (01.01.2001)	75,000	40,000	30,000
Current Account (01.01.2001)	10,000	5,000	(Dr.) 5,000
Drawings	15,000	10,000	10,000

The draft accounts for 2001 showed a net profit of Rs. 60000 before taking into account interest on capitals and drawings and subject to following rectification of errors:

a. Life insurance premium of Weak amounting to Rs. 750 paid by the firm on 30th June, 2001 has been charged to Miscellaneous Expenditure Account.
b. Repair of machinery amounting of Rs. 10,000 has been debited to Plant Account and depreciation thereon charged @ 20%.
c. Traveling Expenses of Rs. 3,000 of Able for a pleasure trip to U.K. paid by the firm on 30th June 2001 has been debited to traveling Expenses Account.

You are required to prepare the Profit and loss Appropriation Account for the year ended 31st Dec. 2001 and partners current Account for the year.**(CA-inter-16 marks)**

[And: Adjusted Net Profit – 55,750, Distributable Profit as per P & L App. A/c – 42,800, Balance of Current Account: Weak – 22,520, Able – 6,180, Lazy – (Dr.) 1,700]

Question:12 X and *Y* formed partnership sharing profits as 2:1. The term was to distribute mercantile profit. But cash profit has been calculated all through. Now it is desired to convert cash account into mercantile accounts. The details are:

	Cash profit	Closing Outstanding Income	Closing outstanding Expenses
	Rs.	Rs.	Rs.
1st Year	10,000	1,000	500
2nd Year	12,000	3,000	1,000
3rd Year	18,000	2,000	800

Pass conversion entry. **[ICWA (Stage 1) June 1998]**

Question:13 Anand and Bharat are in partnership sharing profits and losses in the ratio of 3 :2. With effect from 1st January 1998 they decided to share the profits, earned in any year on the following basis:

Up to Rs. 25,000 Equally
Excess over Rs. 25,000 Anand 2/3rd
Bharat 1/3rd

They also decided to ascertain the income on mercantilist basis with effect from the accounting year 1997. Although profits were shared on the basis of the new agreement, these were ascertained on cash basis only. It was agreed to make the necessary

	1997	1998	1999	2000
	Rs.	Rs.	Rs.	Rs.
Profits already shared	—	21,000	23,000	31,000
As on 31st December				
Accrued Income	2,000	3,500	5,000	2,500
Outstanding Expenses	500	1,000	1,300	300

adjustments at the end of 2000. The relevant information is given below

You are required to give the necessary entries to correct the partners' accounts showing your workings assuming that books of accounts were duly closed at the end of each year. **[I.C.W.A. Final modified]**

Computation of new, sacrificing and gaining ratio

In case of admission

Question:14 P,Q, and R are partners in a firm sharing profit and losses in the ratio of 3:2:1. They admit S as a partner with 1/4th share of profits. Calculate new profit sharing ratio
[Answer: 3:2:1:2]

Question:15 A,B, and C are partners in a firm sharing profit and losses in the ratio of 3:2:1. New partner D is admitted for 1/4th share. Only A and B contributes toward the share of D. calculate the new profit sharing ratio.

Question:16 P and Q are partners in a firm sharing profits and losses in the ratio of 3:2 R is admitted as partner with 1/8th share in profits. It is decided that P and Q will share profits and losses in future in the ratio of 4:3. Calculate the new profit sharing ratio and the sacrificing ratio.
[Answer: 4:3:1 and 4:1]

Question:17 A and B are partners sharing profit and losses in the ratio of 3:2. C is admitted as a new partner. A gives 1/3 of his share and B gives 1/10 of his share in favour of C. Calculate new and sacrificing ratio.

In case of retirement or death of a partner

Question:18 X,Y,Z are partners sharing profit in the ratio of 3:2:1. Y retires and his share was purchased by X and Z in the ratio of 4:1. calculate new and gaining ratio.

Valuation of goodwill

Question:19 Profits earned during last three years by X Ltd are as follows:

2004 --- 5,00,000

2005 --- 6,00,000

2006 --- 4,00,000

Calculate goodwill on the basis of three year's purchase price by

(a) average profit method
(b) weighted average profit method(if weights are not given)
(c) weighted average profit method if weights given are 1,3,6 respectively.

Question:20 **(Calculation of Future Maintainable Profits)**

TATA Ltd. desirous of selling its business to IOCM Ltd. has earned the following profits (after tax) in the past three years: Rs. 4,00,000, Rs. 5,50,000 and Rs. 6,40,000. Following facts need to be taken into consideration:

(i) Directors' fees Rs. 50,000 per year will not be payable by IOCM Ltd. whose existing board can easily manage the additional work.
(ii) Rent of Rs. 10,000 per month paid by TATA Ltd. will not be a charge against the profits of IOCM Ltd. as the latter company has its own premises.
(iii) TATA Ltd. has not transferred its trade investments to IOCM Ltd. Hence, interest of Rs. 9,000 would not be earned by the purchasing company.
TATA Ltd. had outsourced some of its business work for an annual contract of Rs. 1,24,000. However IOCM Ltd. has enough surplus staff to manage the same. Hence savings of this cost. Calculate the Future Maintainable Profits.

Question:21 Average profit = 2,50,000
Capital employed = 20,00,000

Normal rate of return = 10%

Calculate goodwill on the basis of three year's purchase of super profit .

Question:22 Capital employed = 6,00,000
Average profit = 1,00,000

Normal expected return= 10%

Calculate goodwill by

(a) capitalization method
(b) super profit capitalization method

Treatment of goodwill

Question:23 A,B and C are partners sharing profit in 3:2:1. from 1 Jan 2008, they decided to share future profit equally. On that date goodwill of the firm was valued at Rs 3,00,000. make adjustment entry(table entry)

Question:24 X and Y are partners sharing profit and losses in the ratio of 3:2. Z is admitted as a new partner for ¼ share in profit. He has to bring Rs 1,00,000 as his capital and Rs 20,000 for his share of goodwill. Make journal entries if
Case 1. he brings his share of goodwill in cash. Partners withdrew half of goodwill in cash.

Case 2. he does not bring his share of goodwill in cash.

Question:25 A,B,C and D are partners sharing profit in the ratio of 4:3:2:1. C retires and his share was purchased by remaining partners in the ratio of 1:1:1. Goodwill of the firm was valued at Rs. 2,40,000. Make table entry.

Question:26 A,B and C are partners sharing profits in ratio of 2:2:1. B retires and D is admitted as a new partner. Goodwill of the firm valued at Rs. 1,80,000. New ratio among A,C and D will be 1:2:2. Make table entry.

Question:27 A,B,C are partners sharing profit in ratio of 2:2:1. D is admitted as a new partner for 1/5th share. Goodwill of the firm was valued at Rs. 2,00,000 . D brings following assets on behalf of his Capital and his share of goodwill.

Machine = 2,00,000
Furniture = 1,00,000
Cash = 1,60,000
Stock = 40,000
Goodwill = 25,000
Make journal entries.

Question:28 Sen and Chatterjee were partners sharing profit and losses as 3 : 2. They admitted Roy as third partner with effect from 1 -1 -1998, the new profit-sharing ratio being 5:3:2. They again took Ghose as their fourth partner as on 1-1-1999, the new profit-sharing ratio coming to 9 : 5 : 4 : 2 . On 1-1 -2000, Bose was taken in as their fifth partner, the profit-sharing ratio now being agreed as 7 : 4 : 3 : 3 : 3. Chatterjee died on 1-1-2001 and you are requested to estimate the values of his share of goodwill, which had never been raised in the books of account, nor was any premium received from any entrant. On enquiry you find that the respective values of the goodwill of the firm were as follows:

Date:	***1-1-1998***	***1-1-1999***	***1-1-2000***	***1-1-2001***
Value	Rs. 4,000	Rs. 6,000	Rs. 8,000	Rs. 12,000

Estimate the amount payable to the legal representatives of Chatterjee and state how such amount would be contributed by the continuing partners, provided they do not raise any goodwill account in the books and-agree to share profit from 1-1-2001 on the following basis : Sen 40%,Roy 25%, Ghose 20% and Bose 15% **(Adapted from M.Com., Calcutta University)**

Concept of joint life policy

In case of admission / retirement of a partner

Question:29 X,Y,Z are partners sharing profit equally. They had taken a joint Life policy for Rs. 2,40,000 on which premium paid is treated as an expense. Y retires. On that date surrender value of policy was Rs 60,000
Show treatment (without raising JLP Account.)

Question:30 A,B,C are partners sharing profits in 2:1:2: They had taken J.L.P. for Rs. 1,20,000. C retires. On that date surrender value of policy was Rs. 40,000. Make jounal entry if partners decided to show J.L.P. in book of firm.

Question:31 A and B are partners sharing profit in the ration of 3:2. They had taken a J.L.P. for Rs. 5,00,00. C is admitted as a new partner for ¼ share. On that date surrender value of policy was Rs. 2,40,000. Make adjustment entry.

In Case of death of a partner

Question:32 Raja , Ram and Ranjan were partner sharing profit equally. Ram died they had taken a J.L.P. for Rs. 6,00,000. Claim was admitted with insurance company. On the date Surrender value of policy was Rs. 2,40,000 . Make journal entries if
(a) J.L.P. was treated as an expense.
(b) J.L.P. was treated as an asset.
(c) J.L.P. was treated as an asset and reserve account is maintained.

ADMISSION AND RETIREMENT OF A PARTNER

Question:33 *A* and *B* are partners sharing profits in the ratio of 3 : 2. Following is the balance sheet of the firm as on 31st March, 2008:

BALANCE SHEET as *on 31st March, 2008*

Liabilities		**Rs.**	***Assets***		**Rs.**
Creditors		38,000	Cash in hand at bank		10,000
Salary outstanding		12,000	Debtors	40,000	
Capitals:			*Less:* Provision for doubtful		
A	40,000		Debts	4,000	36,000
B	38,000	78,000	Bills receivable		15,000
			Stock		18,000
			Investments		14,000
		1,28,000	Furniture		1,28,000

C is admitted as a new partner for ¼ share. He brings Rs20,000 as his capital and Rs6,000 for his share of goodwill. Partners decided to withdrew 40% of their share of goodwill from the firm. At this date it is found that estimated value of provision for doubtful debts is Rs.6,500, and furniture Rs.4,500, building Rs.45,000; whilst an investment not recorded in the books is worth Rs. 4,300 and a contingent liability of Rs. 1,200 has become a certain liability.

You are required to prepare revaluation account and balance sheet after giving effect to the above.

Question:34 Taking the previous question, if it has been agreed among the partners that assets and liabilities are to be shown at old values, you are required to prepare revaluation account and anew balance sheet after the admission of C.

Question:35 Akash and Patal were carrying on business in partnership since 1994. Their balance sheet as on 31st March 1996 was as follows:

Liabilities		**Rs.**	***Assets***	**Rs.**
Capital—			Goodwill	4,000
Akash	39,700		Motor cars	16,500
Patal	21,300	61,000	Furniture and fixtures	6,200
Profit and loss account		9,000	Stock	29,400
Creditors		26,700	Debtors	39,600
Bills payable		1,500	Cash at bank	2,300
			Cash in hand	200
		98,200		**98,200**

On 1st April, 1996 they decided to admit Bhuban as a partner on the following conditions:

(a) Bhuban will receive 1 /5th of the future profits (after charging interest @5% on capitals), subject to a minimum of Rs. 6,000 per annum. Any deficiency in his share of profits is to be met from Akash's share.

(b)The goodwill of the firm is valued at Rs. 8,000.

(c) An independent valuation revealed that motor cars are worth Rs. 19,000, while the value of furniture is only

Rs. 5,700, Rs. 1,500, of the debtors are likely to become bad.

(d) Bhuban was to bring in capital equal to l/5th of the capitals of Akash and Patal arrived at after giving effect to the foregoing considerations.

During the year ended-31st March. 1997 the firm earned a profit of Rs. 30,000 (before-charging interest on capitals).

You are required to—

(i) Show journal entries in respect of transactions taking place at the time of Bhuban's admission.

(ii)Show the balance sheet immediately after Bhuban's admission.

(iii) Show the profit and loss appropriation account for the year ended 31st March, 1997, assuming that adjustments in respect of guaranteed profits are to be made through the profit and loss appropriation account. **[I.C.W.A., (Final)]**

Question:36 The following is the balance sheet of A, *B* and C sharing-profits and losses in the proportion of 6/14, 5/14 and 3/14 respectively:

	Rs.		**Rs.**
Creditors	18,900	Cash	1,890
Bills payable	6,300	Debtors	26,460
General reserve	10,500	Stock	29,400
A's capital	35,400	Furniture	7,350
B's capital	29,850	Land and Buildings	45,150
C's capital	14,550	Goodwill	5,250
	1,15,500		1,15,500

They agreed to take *D* into partnership and give him 1/8th share on the following terms:

(i) That furniture is depreciated by Rs. 920. (ii) That stock is depreciated by 10%. (iii) That a provision of Rs. 1,320 be made for outstanding repair bills, (iv) That the value of land and buildings having appreciated be brought up to Rs. 59,850. (v) That the value of

goodwill be brought up to Rs. 14,070. (vi) That D should then bring in Rs. 14,700 as his capital. (vii) That after making the above adjustments the capital accounts of the old partners be adjusted on the basis of the proportion of D's capital to his share in the business, i.e., actual cash to be paid off or brought in by the old partners as the case may be. Pass the necessary journal entries and prepare the balance sheet of the new firm.

Question:37 A and *B* are partners in a firm sharing profits in the ratio of 2: 1. The balance sheet of the firm on 31st December, 1996 was as follows:

		Rs.			Rs.
Creditors		1,400	Bank		1,004
Investment provision		400	Bills receivable		2,500
Workmen compensation fund		1,200	Debtors	4,000	
General reserve		2,100	*Less*: Provision	500	3,500
Capital: A	6,000		Stock		3,000
B	4,900	10,900	Investments		5,000
					996
		16,000	Goodwill		16,000

On the above date C is admitted for 2/5th share in the profits of the firm. Following revaluations were made at the time of admission:

(1) Accrued incomes not appearing in the books Rs. 100. (2) Market value of investments is Rs. 4,500. (3) Claim on account of compensation is estimated at Rs. 150. (4) Provision for doubtful debts is required at Rs. 600. (5) X, an old customer, whose account was written off as bad, has promised to pay Rs. 350 in settlement of his full claim. (6) A and B had purchased a machinery on hire purchase system for Rs. 3,000 of which only Rs. 100 are to be paid. Both machinery and unpaid liability did not appear in the balance sheet. (7) There was a joint life policy on the lives of A and B for Rs. 15,000. Surrender value of the policy on the date of admission amounted Rs. 2.400. It was decided to record this as an asset of the new firm.

(8) C is required to bring necessary amount for his capital and his share of goodwill Rs. 2,400. Capital of other partners should also be in their profit sharing ratio. You are required to make journal entries and prepare new balance sheet after the admission of C.**(Ans:- Profit on revaluation= 6,600)**

Question:38 Arun and Anand were partners sharing their profits in the ratio of 3: 2. Their position as on 31st March, 1991 was as under:

Liabilities	**Rs.**	***Assets***	**Rs.**
Arun's capital	12,000	Land and Building	8,000
Anand's capital	10,000	Plant and Machinery	10,000
General Reserve	12,000	Sundry Debtors	11,000
Workmen's Compensation Fund	4,000	Stock	12,000
Sundry Creditors	12,000	Cash at Bank	9,000
	50,000		50,000

They decided to admit Ashok for a 20% profit on the following terms:

(a) The liability on Workmen's Compensation Fund is to be determined at Rs. 2,000.
(b) Ashok to bring in Rs. 3000 as premium out of his share of Rs. 3,600.
(c) Ashok was to bring in further cash of Rs. 20,000 towards his capital.
(d) General Reserve is to be maintained at its original value.
(e)Rs. 2,000 creditors were paid at 5% discount.

Pass necessary journal entries to give effect to the above arrangement to show the capital accounts and prepare the Balance Sheet of the new firm

Question:39 Quick and Slow are partners in a firm sharing profits and losses in the ratio of 3 : 2. The Balance Sheet of the firm as on 31st March, 1993 was as under.

Liabilities	Rs.	Rs.	*Assets*	Rs.
Capital Accounts				
Quick	1,20,000		Furniture & Fixtures	60,000
Slow	77,000	1,97,000	Office Equipments	30,000
General Reserve		30,000	Motor Car	75,000
Sundry Creditors		96,000	Stock	50,000
			Sundry Debtors	90,000
			Cash at Bank	18,000
		3,23,000		3,23,000

Smooth was admitted as a new partner with effect from 1st April, 1993 and it was agreed that he would bring some private furniture worth Rs. 10,000 and private stock costing Rs. 8,000 and in addition contribute Rs. 50,000 cash towards capital. He would also bring proportionate share of goodwill which is to be valued at two year's purchase of the average profits of the last three years. The profits of the last three years were:

1992-93 -- 52,000
1991-92-- 32,000
1990-91-- 28,000

However, on a checking of the past records, it was noticed that on 1.4.91 a new furniture costing Rs. 8,000 was purchased but wrongly debited to revenue and in 1992-93 a purchase invoice for Rs. 4,000 dated 25.3.93 has been omitted in the books. The firm charges depreciation on furniture @ 10% p.a. Your calculation of goodwill is to be made on the basis of correct profits.

On revaluation value of stock is to be reduced by 5% and Motor car is worth Rs. 85,000. Smooth duly paid the required amount for goodwill and cash towards capital. It was decided that the future profits of the firm would be shared as Quick-50%, Slow-30% and Smooth-20%. Assuming the above mentioned arrangements were duly carried out, show the Capital Accounts of the partners and the Balance Sheet of the firm after Smooth's admission. **[I.C.W.A.(Inter) Dec. 1993]**

Question:40 M/s NEPTUNE & CO's Balance hseet as at 31st March, 2001:

Liabilities		**Rs.**	**Assets**		**Rs.**
Bank overdraft (State Bank)		54,000	Cash at Bank of India		800
Sundry Creditors		1,56,000	Sundry Debtors		2,80,000
Capital Accounts:			Stock		1,00,000
Mr.A			Motor Cars Cost as per		
Balance as per last B/S	4,02,000		last B/S	1,60,000	
Add: Profit for the year	95,400	4,57,400	Less: Depreciation till date	54,000	1,06,000
	4,97,400		Machinery		
Less: Drawing	40,000		Cost as per last B/S	3,00,000	
Mr. B			Less: Depreciation	.	
Balance as per last B/S	2,00,000		Till date	1,40,000	1,60,000
Add: Profit for the year	95,400		Land and Building		2,40,000
	2,95,400				
Less: Drawings	76,000	2,19,400			.
		8,86,800			8,86,800

You have examined the foregoing Draft of the Balance Sheet and have ascertained that the allowing adjustments are required to be carried out:

a) Land and Buildings are shown at cost less Rs. 60,000 being the proceeds of the sale during the year of premises costing Rs. 70,000.
b) Machinery having a net book value of Rs. 4,300 had been scrapped during the year. The original cost was Rs. 12,300.
c) Rs. 2,000 paid for the license fees for the year ending 30th September, 2001 had been written off.
d) Debts amounting to Rs. 10,420 were considered to be bad and further debts amounting to Rs. 5,400 were considered doubtful and required 100% provision. Provision for doubtful debts had previously been made for Rs. 10,000.
e) An item in the Inventory was valued at Rs. 37,400 , but had a realizable value of Rs. 26,000 only. Scrap materials having a value of Rs. 6,600 had been omitted from the stock valuation.
f) The cashier had misappropriated Rs. 700.
g) The cash-book for the year ending 31stMarch,2001 included payments amounting to Rs. 6,924, the cheques having been made out, but not dispatched to suppliers until April, 2001.
h) Interest is to be allowed on the Partners' Opening Capital Account balances less drawings during the year at 9%.

You are required to prepare:

(a) Profit & Loss Adjustment Account for the year
(b) Capital Accounts of the partners. **(CA Inter Nov., 2001)**

Question:41 On 31st, March, 1996 the Balance Sheet of M/s Arun, Varun and Taran sharing profit and losses in the ratio of 6:5:3, stood as follows.

Liabilities	Amount	Assets	Amount
Sundry Creditors	37,800	Cash	3,780
Bills Payable	12,600	Sundry Debtors	52,920
General Reserve	21,000	Stock	58,800
Capital Accounts:		Furniture	14,700
Arun :	70,800	Land & Buildings	90,300
Varun :	59,700	Goodwill	10,500
Tarun :	29,100		
Total	2,31,000	Total	2,31,000

They agree to admit Nitin as a partner giving him l/8th share, on 1.4.1996 on the following terms :--

(i.) Furniture to be depreciated by Rs. 1,840.
(ii.) Stock shall be valued 10% less than the balance sheet value
(iii.) A provision of Rs.2,640 be made for outstanding repair bill.
(iv.) The value of land and buildings having appreciated be brought upto Rs. 1,19,700
(v.) Value of goodwill be brought upto Rs.28,140.
(vi.) Nitin should bring in cash Rs 29,400 as his Capital.

After making the above adjustments the capital accounts of the old partners be adjusted on the basis of proportion of Nitin's Capital to his share in the business by bringing in or taking out cash.

You are required to prepare revaluation Account, Capital account of Partners, Cash Account and Balance Sheet as on 1.4.1996 after Nitin's admission.

[Answer. Profit on Revaluation-19,040; Partner's Capital: Arun-88,200, Varun-73,500, Tarun-44,100, Nitin-29,400, Balance sheet-2, 88,240, New Ratio - 6:5:3:2, Sacrificing Ratio 6:5:3.)

Question:42 X and Y are partners in a business started in 1997, sharing profit and losses in the ratio of 5:4. After the accounts for the calendar year 2000 were made up and their proportionate shares taken note of in their individual accounts, they decide to share profit and losses equally retrospectively for and from the year 2000. It was also discovered that in ascertaining the results in prior years, certain adjustments, details of which are given below, had not been noticed.

Particulars	1997	1998	1999	2000
Profit as per accounts	72,000	78,000	90,000	1,08,000
Incomes not taken into account	5,400	4,500	3,600	6,300
Expenses not provided for	9,000	6,000	10,800	7,200

On 31st Dec., Reserves stood at Rs. 54,000, Capitals of X and Y Rs. 1,2600 and Rs. 96,000 respectively on 31st Dec., 2000.

On 1st Jan. 20001, Z was decided to be admitted as a partner and was allotted 1/5th share. Goodwill was decided to be ascertained by capitalizing at 20% the average profit of the immediately tow proceeding years before admission. Z would bring in proportionate capital. Capitals of X and Y are to be equal, the difference to be adjusted in their current accounts.

Profits for 2001, were Rs. 1,26,000. Drawings of X, Y and Z for the year were Rs. 54,000, Rs. 48,000 and Rs. 18,000 Respectively. Incomes not taken into account are received in subsequent year. Expenses not provided for are paid in subsequent year. Prepare capital and current accounts of the partners for the Year 2001.

Question:43 Laurel and Hardy are partners of the firm LH &*Co.,* from 1.4.2003. Initially both of them contributed Rs. 1,00,000 each as capital. They did not contribute any capital thereafter. They maintain accounts of the firm on mercantile basis. They were sharing profits and losses in the ratio of 5:4. After the accounts for the year ended 31.3.2007 were finalized, the partners decided to share profits and losses equally with effect from 1.4.2003.

It was also discovered that in ascertaining the results in the earlier years certain adjustments, details of which are given below, had not been noted.

Year ended 31st March	***2004***	***2005***	***2006***	***.2007***
	Rs.	***Rs.***	***Rs.***	***Rs.***
Profit as per accounts prepared and finalized	1,40,000	2,60,000	3,20,000	3,60,000
Expenses not provided for (as at 31st March)	30,000	20,000	36,000	24,000
Incomes not taken into account(31st March)	18,000	15,000	12,000	21,000

The partners decided to admit Chaplin as a partner with effect from 1.4.2007. It was decided that Chaplin would be allotted 20% share in the firm and he must bring 20% of the combined capital of Laurel and Hardy.

Following is the Balance sheet of the firm as on 31.3.2007 before admission of Chaplin and before adjustment of revised profits between Laurel and Hardy.

Balance Sheet of LH & Co. as at 31.3.2007

Liabilities	***Rs.***	***Assets***	***Rs.***
Capital Accounts:		Plant and Machinery	60,000
Laurel	2,11,500	Cash on Hand	10,000
Hardy	1,51,500	Cash at Bank	5,000
Sundry Creditors	2,27,000	Stock in Trade	3,10,000
		Sundry Debtors	2,05,000
	5,90,000		5,90,000

You are required to prepare:

(i) Profit and Loss Adjustment account;
(ii) Capital accounts of the partners; and
(iii) Balance Sheet of the firm after the admission of Chaplin. **(CA-PE2- MAY 2007)20 MARKS**

Question:44 A and B are equal partners. They admit C and D as partners with 1/5 and 1/6 share respectively. What is the profit sharing ratio of all the partners? **(CA-PE2- MAY 2007) 2 MARKS**

RETIREMENT OR DEATH OF A PARTNER

Question:45 P, *Q,* and *R* were partners sharing profit and losses in the ratio of P 5/10, Q 3/10, R 2/10. They had taken out a joint life policy of the face value of Rs. 20,000. On 31st December, 1997 its surrender value was Rs. 4,000. On this date the balance sheet of the firm stood as under:

Liabilities		**Rs.**	***Assets***	**Rs.**
Sundry creditors		5,300	Fixed assets	25,000
Expenses outstanding		700	Stock	11,000
Reserve		3,000	Book debts	9,000
Capitals:			Cash at bank	2,000
P	20,000			
Q	10,000			
R	8,000	38,000		
		47,000		47,000

On this date Q decided to retire and for the purpose : (i) Goodwill was valued at Rs. 15,000; (ii) Fixed assets were valued at Rs. 30,000; and (iii)Stock was considered as worth Rs. 10,000.

Q was to be paid through cash brought in by P and R in such a way as to make their capitals proportionate to their new profit-sharing ratio which was to be P 3/5 and R2/5. They also decided to maintain minimum cash of Rs 1,000 in their bank Account. Goodwill was to be passed through books without raising a goodwill account; the joint life policy was also not to appear in the balance sheet.

Record these matters in the journal of the firm and prepare the resultant balance sheet. **(C.A. INTER)**

Question:46 The following is the Balance Sheet of A, *B* and C who were equal partners on 31st December 1995:—

BALANCE SHEET

Liabilities	***Rs.***	***Assets***	***Rs.***
A's Capital	33,600	Plant and Machinery (at cost)	49,000
B's Capital	25,200	Furniture	4,800
C's Capital	12,000	Stock-in-trade	22,800
10% Mortgage Loan	12,000	Sundry Debtors	21,600
Sundry Creditors	16,600	Cash in Hand	1,200
	99,400		99,400

On 1st January 1996, C retired from business and claimed his share in the Secret Reserve/ Profit arising out of the following-

a. During the year 1995, purchase of Machinery at a cost of Rs. 5,000 was charged to Purchases Account, the Installation charges of Rs. 300 to erect the machinery, being charged to machinery repairs account.
b. Rs. 1,200 received from a debtor towards rent of property sub-let, was credited to his personal account, instead of rent account, so as to reduce his debit balance from Rs. 1,600 to Rs. 400 debit.
c. Interest on Mortgage Loan was paid in advance up to 31st December 1996, and the whole amount was charged to interest Account in 1995.

After rectifying the above errors, it was mutually decided as under:—

a) The Goodwill of the firm is valued at three times the average profit of the last three years. Such profits should be the correct profits and not the book profits. The book profits for the last three year were: 1993 Rs. 13,830; 1994 Rs. 32,000 ; 1995 Rs. 12,010.Machinery is depreciated by 10% and the provisions for bad and doubtful debts are made at 5% on Debtors.
b) (deleted point due to AS 26).
c) C should be paid half of his dues in cash which shall be brought in by A and *B* in their profit-sharing proportion and the other half shall be left in the business as C's Loan fetching 15% interest.

Prepare C's Capital Account, Profit and Loss Adjustment Account and the Balance Sheet of *A* and B after C's retirement. **[C.A. Inter May]**

Question:47 The balance sheet of X, Y and Z, who were sharing profits in the ratio of 4 : 3 : 2 respectively stood as follows on 31st December, 1998:

Liabilities		Rs.	*Assets*		Rs.
		4,140	Cash at bank		3,300
Capital account's:			Sundry debtors	3,045	
X	12,000		*Less:* Provision	105	2,940
Y	9,000		Stock		4,800
Z	6,000		Plant and machinery		5,100
		27,000	Land and building		15,000
		31,140			**31,140**

Y having given notice to retire from the firm, the following adjustments in the books of the firm were agreed upon:

(a) That land and building be appreciated by 10 per cent, (b) The provision for bad debts is no longer necessary, (c) That the stock be appreciated by 20 per cent, (d) That adjustment be made in the accounts to rectify a mistake previously made whereby Y was credited in excess by Rs. 810 while X and Z were debited in excess by Rs. 420 and Rs. 390 respectively.(e) That the goodwill of the firm be fixed at Rs. 5,400 and Y share of the same be adjusted to that of X and Z who are going to share in future profits in the ratio of 2 : 1. (f)That the entire capital of the firm, as newly constituted, will be re-adjusted by bringing in or paying of cash so that the future capital of X and Z be in the ratio of 2 : Pass journal entries and prepare the balance sheet of the new firm showing Y balance as loan.**(I.C.W.A. Inter)**

Question:48 Manish, Jatin and Paresh were partners sharing Profits/Losses in the ratio of Manish 40 per cent, Jatin 35 per cent, and Paresh 25 per cent. The draft Balance Sheet of the partnership as on 31st December, 2001 was as follows:

Balance sheet as on 31 december 2001

		Rs.			Rs.
Sundry Creditors		30,000	Cash on hand and at Bank		67,000
Bills payable		8,000	Stock		42,000
Loan from Jatin		30,000	Sundry Debtors	34,000	
Current Accounts:			Less: Provision for		
Manish	12,000		Doubtful Debts	6,000	28,000
Jatin	8,000		Plant and Machinery		
Paresh	6,000	26,000	(at cost)	80,000	
Capital Accounts:			Less: Depreciation	28,000	52,000
Manish	90,000		Premises (at cost)		75,000
Jatin	50,000				
Paresh	30,000	1,70,000			
		2,64,000			2,64,000

Jatin retired on 31st December, 2001. Manish and Paresh continued in partnership sharing profits/losses in the ratio of Manish 60 per cent and Paresh 40 per cent. 50 per cent of Jatin's Loan was repaid on 1.1.2002 and it was agreed that of the amount then remaining due to him a sum of Rs.-80,000 should remain as loan to partnership and the balance to be carried forward as ordinary trading liability. The following adjustments were agreed to be made to the above mentioned Balance Sheet:

(i) Rs. 10,000 should be written off from the premises.
(ii) Plant and Machinery was revalued at Rs. 58.000.
(iii) Provision for doubtful debts to be increased by Rs. 1,200.
(iv) Rs. 5,000 due to creditors for expenses had been omitted from the books of account,
(v) Rs. 4,000 to be written off on stocks.
(vi) Provide Rs. 1,200 for professional charges in connection with revaluation.

As per the deed of partnership, in the event of the retirement of a partner, goodwill was to be valued at an amount equal to one year's purchase of the average profits of the preceding three years on the date of retirement. Before

determining the said average profits a notional amount of Rs. 80,000 should be charged for remuneration of partners. The necessary profits before charging such remuneration were:

Year ending 30.12.1999	Rs. 1,44,000
Year ending 31.12.2000	Rs. 1,68,000
Year ending 31.12.2001	Rs. 1,88,200 (as per draft accounts)

It was agreed that, for the purpose of valuing goodwill, the amount of profit for the year 2001 be recomputed after charging the loss on revaluation in respect of premises and stock, the unprovided expenses (except professional expenses) and increase in the provision for doubtful debts. The continuing partners decided to eliminate goodwill account from their books. You are required to prepare:

(i) Revaluation Account;
(ii) Capital Accounts (merging current accounts therein);
(iii) Jatin's Account showing balance due to him; and
(iv) Balance Sheet of Manish and Paresh as at 1st January. 2002. **[CA Inter May, 2002]**

Question:49 Following two problems are regarding issues in Partnership Accounts, kindly solve both :

(i) Anil and Mukesh are partners sharing profit and losses in the ratio of 3 : 2. Govind is admitted for 1/4 share of firm. Thereafter Madan enters for 20 paisa in a rupee. Compute new profit sharing ratios under both the admission of partners.

(ii) The following Goodwill Account was opened by the partners of R and S, on the admission of H as a new partner into firm Om and Sons. Calculate the share of profit agreed to be given to "H".

Goodwill A/c.

Dr.			Cr.
Rs.	Rs.		
1-4-2010 To R's Capital A/c	24,800	1-4-2010 By R's Capital A/c	12,400
1-4-2010 To S's Capital A/c	18,600	1-4-2010 By S's Capital A/c	12,400
		1 -4-2010 By H's Capital A/c	18,600
	43,400		**43,400**

(CA- MAY 2010) 5 MARKS

Answer:

(i) 1. At the time of admission of Govind :

Let the total share of profit at the time of admission of Govind is 1 Share of New Partner 'Govind' = ¼ Remaining share of profit = 1 – ¼ = ¾

∴new share of Anil $= \frac{3}{4} \times \frac{3}{5} = \frac{9}{20}$

New share of Mukesh $= \frac{3}{4} \times \frac{2}{5} = \frac{6}{20}$

New profit sharing of Anil, Mukesh&Govind is

$$\frac{9}{20} : \frac{6}{20} : \frac{1}{4} \; i.e \; 9:6:5$$

2. At the time of admission of Madan:

Let total share at the time of admission of Madan is 1 Share of new partner 'Madan = 1/5 Remaining share =1-1/5 = 4/5

Now,

New share of Anil $= \frac{4}{5} \times \frac{9}{20} = \frac{9}{25}$

New share of Mukesh= 4/5 x 6/20 = 6/25

New share of Govind= 4/5 x 5/20 =5/25

New profit sharing ratio of Anil, Mukesh, Govind and Madan is

$$\frac{9}{25} : \frac{6}{25} : \frac{5}{25} : \frac{1}{5} \; i.e. 9:6:5:5$$

(ii) **Share of H in profit sharing ratio**;

H's Share $= \frac{Share \; of \; H \; in \; Goodwill}{Total \; Goodwill} = \frac{3}{7}$

Question:50 Amit and Sumit are partners sharing profits and losses in the ratio of 3: 2. Their Balance Sheet as on 31st March 2011 is given below:

Liabilities		**Amount** Rs.	**Assets**		**Amount** Rs.
Capital Accounts :			Land & Building		3,20,000
Amit	1,76,000		Investment(Market value 55,000)		50,000
Sumit	2,54,000	4,30,000	Debtors	3,00,000	
Loan from Puneet		3,00,000	Less: Provision for doubtful debts	10,000	2,90,000
General Reserve		30,000	Stock		1,10,000
Employer's Provident Fund		10,000	Cash at Bank		50,000
Creditors		50,000			
Total		**8,20,000**	Total		**8,20,000**

They decided to admit Puneet as a new partner from 1st April, 2011 on the following terms:

1. Amit will give 1/3rd of his share and Sumit will give 1/4th of his share to Puneet.
2. Puneet's loan account will be converted into his capital.
3. The Goodwill of the firm is valued at Rs. 3,00,000. Puneet will bring his share of Goodwill in cash and the same was immediately withdrawn by the partners.
4. Land and building was found undervalued by Rs. 1, 00,000.
5. Stock was found overvalued by Rs. 60,000.
6. Provision for doubtful debts will be made equal to 5% of debtors.
7. Investments are to be valued at their market price.

It was decided that the total capital of the firm after admission of new partner would be Rs. 10,00,000. Capital accounts of partners will be readjusted on the basis of their profit sharing ratio and excess or deficiency will be adjusted in cash. You are required to prepare:

(a) Revaluation A/c., (b) Partner's Capital A/c.

(c) Balance Sheet of the firm after admission of new partner. **(CA- MAY 2011) 16 MARKS**

Answer : **Revaluation A/c**

Particulars	**Amount**	**Particulars**	**Amount**
To Stock	60,000	By Land & building	1,00,000
To Provision for doubtful debts	5,000	By Investments	5,000
To Profit transferred to			
Amit's capital A/c	24,000		
Sumit's capital A/c	16,000		
	1,05,000		1,05,000

Partner's Capital Account

Particulars	Amit	Sumit	Puneet	Particulars	Amit	Sumit	Puneet
To Amit's capital A/c	—	—	60,000	By Balance b/d	1,76,000	2,54,000	
To Puneet's capital A/c	—	—	30,000	By Puneets' Loan A/c	—	—	3,00,000
To Bank A/c	60,000	30,000	—	By Puneet's capital A/c	60,000	30,000	—
To Balance c/d	4,00,000	3,00,000	3,00,000	By Bank A/c (W.N.2)	—	—	90,000
				By Revaluation A/c	24,000	16,000	—
				By General reserve	18,000	12,000	—
				By Bank	1,82,000	18,000	---
	4,60,000	3,30,000	3,90,000		4,60,000	3,30,000	3,90,000

Balance Sheet(NEW)

Liabilities		**Amount**	**Assets**		**Amount**
Capital accounts			Land and building (3,20,000+1,00,000)		4,20,000
Amit	400,000		Investments		55,000
Sumit	300,000		Debtors	3,00,000	
Puneet300,000		10,00,000	Less: Provision for doubtful debts	(15,000)	2,85,000
Creditors		50,000	Stock (1,10,000-60,000)		50,000
Employers' Provident Fund		10,000	Cash at bank (W.N.3)		2,50,000
		10,60,000			10,60,000

Working Notes:

(1) Calculation of incoming partner's share, new profit sharing ratio and sacrificing ratio.

	Amit	Sumit
Old profit sharing ratio	3/5	2/5
Surrendered by old partners	3/5x1/3=1/5	2/5x1/4=1/10
Remaining share	3/5 -1/5 =2/5	2/5-1/10=3/10

Employer's Provident Fund is current liability as it is assumed to be representing employer's contribution to provident fund which is yet to be deposited. Puneet's total share in profits = 1/5 + 1/10 =3/10
New profit sharing ratio of Amit: Sumit: Puneet = 2/5 : 3/10 : 3/10 = 4:3:3 Sacrificing ratio of Amit: Sumit is 1/5 :1/10 : o r 2:1

(2) Calculation of Share of goodwill be old partners

Goodwill of the firm was Rs. 3, 00,000
Share of Puneet in goodwill

$$= Rs.3{,}00{,}000 \times \frac{3}{10} = Rs.90{,}000$$

Goodwill will be distributed among the old partners in their sacrificing ratio of 2:1 i.e. Rs. 60,000 by Amit and Rs. 30,000 by Sumit.

(3) Calculation of Closing Balance of Bank Account after admission.

Bank A/c

Particulars	Rs.	Particulars	Rs.
To Balance b/d	50,000	By Amit's capital A/c	60,000
To Puneet's capital A/c	90,000	By Sumit's capital A/c	30,000
To Sumit's capital A/c	18,000	By Balance c/d	2,50,000
To Amit's capital A/c	1,82,000		
	3,40,000		3,40,000

Question:51 A, B and C are carrying on partnership business as equal partners. On 31st December, 2007 C dies and the capitals of the partners after necessary adjustments stood at Rs. 20,000, Rs. 30,000 and Rs. 50,000 respectively. A and B could settle the account of the executors of C only on 31st March, 2008, by which time the partnership made a profit of Rs. 9,000. As there was no contract regarding the share to be given in the subsequent profits made by the firm, the executors wanted to exercise option available under Section 37 of the Partnership Act. Determine the amount payable to the executors.

Question:52 **(2 questions have been printed under question 53. So read carefully)**A, B and C were partners of a firm sharing profits and losses in the ratio of 3 : 4 : 3. The Balance Sheet of the firm, as at 31st March, 1998 was as under :

Liabilities		**Rs.**	**Assets**		**Rs.**
Capital Accounts :			Fixed Assets		1,00,000
A	48,000		Current Assets :		
B	64,000		Stock	30,000	
C	48,000	1,60,000	Debtors	60,000	
Reserve		20,000	Cash and Bank	30,000	1,20,000
Creditors		40,000			
		2,20,000			2,20,000

Partner C died on 30th September, 1998. It was agreed between the surviving partners and the legal representatives of C that :

(i) Goodwill of the firm will be taken at Rs. 60,000.
(ii) Fixed Assets will be written down by Rs. 20,000.
(iii) In lieu of profits, C should be paid at the rate of 25% per annum on his capital as on 31st March, 1998.

The profits for the year ended 31st March, 1999, after charging depreciation of Rs. 10,000 (depreciation upto 30th September was agreed to be Rs. 6,000) were Rs. 48,000.
Partners' Drawings Accounts showed balances as under :
A Rs. 18,000 (drawn evenly over the year)
B Rs. 24,000 (drawn evenly over the year)
C (up-to-date of death) Rs. 20,000

On the basis of the above figures, please indicate the entitlement of the legal heirs of C, assuming that they had not been paid anything.**(13 marks) (Intermediate–Nov. 2000)**

Question 53 (2 questions have been printed under question 53. So read carefully)) Ram, Rahim and Robert are partners, sharing Profits and Losses in the ratio of 5 : 3 : 2. It was decided that Robert would retire on 31.3.2005 and in his place Richard would be admitted as a partner with new profit sharing ratio between Ram, Rahim and Richard at 3 : 2 : 1.

Balance Sheet of Ram, Rahim and Robert as at 31.3.2005:

Liabilities	Rs.	**Assets**	Rs.
Capital Accounts:		Cash in hand	20,000
Ram	1,00,000	Cash in Bank	1,00,000
Rahim	1,50,000	Sundry Debtors	5,00,000
Robert	2,00,000	Stock in Trade	2,00,000
General Reserve	2,00,000	Plant & Machinery	3,00,000
Sundry Creditors	8,00,000	Land & Building	5,30,000
Loan from Richard	2,00,000		
	16,50,000		**16,50,000**

Retirement of Robert and admission of Richard is on the following terms:

(a) Plant & Machinery to be depreciated by Rs. 30,000.
(b) Land and Building to be valued at Rs. 6,00,000.
(c) Stock to be valued at 95% of book value.
(d) Provision for doubtful debts @ 10% to be provided on debtors.
(e) General Reserve to be apportioned amongst Ram, Rahim and Robert.
(f) The firm's goodwill to be valued at 2 years purchase of the average profits of the last 3 years. The relevant figures are:
Year ended 31.3.2002 – Profit Rs. 50,000
Year ended 31.3.2003 – Profit Rs. 60,000
Year ended 31.3.2004 – Profit Rs. 55,000
(g) Out of the amount due to Robert Rs. 2,00,000 would be retained as loan by the firm and the balance will be settled immediately.
(h) Richard's capital should be equal to 50% of the combined capital of Ram and Rahim.

Prepare:

(i) Capital accounts of the partners; and
(ii) Balance Sheet of the reconstituted firm. **(16 Marks) (PE-II – Nov. 2005)**

ADMISSION CUM RETIREMENT/DEATH OF A PARTNER

Question:53 Avinash, Basuda Ltd. and Chinmoy Ltd. were in partnership sharing profit and losses in the ratio of 9 : 4 : 2. Basuda Ltd. retired from *the* partnership on 3lst March, 1998, when the firm's balance sheet was as under : (Rs. in thousand)

Liabilities		**Rs.**	***Assets***	**Rs.**
Sundry creditors		600	Cash and bank	284
Capital accounts:			Sundry debtors	400
Avinash	2,700		Stock	800
Basuda Ltd.	1,200		Furniture	266
Chinmoy Ltd.	600	4,500	Plant	850
			Land and building	2,500
		5,100		**5,100**

Basuda Ltd.'s share in goodwill and capital was acquired by Avinash and Chinmoy Ltd. in the ratio of 1: 3,the continuing partners bringing in the necessary finance to pay off Basuda Ltd. The partnership deed provides that on retirement or admission of a partner, the goodwill of the firm is to be valued at three times the average annual profits of the firm for the four years ended on the date of retirement or admission. The profits of the firm during the four years ended 31st March, 1998 in thousands of rupees were:

	Rs.
1994-95	450
1995-96	250
1996-97	600
1997-98	700

The deed further provided that goodwill account is not to appear in the books of accounts at all. The continuing partners agreed that with effect from 1st April, 1998, Ghanashyam, son of Avinash is to be admitted as a partner with 25% of share profits.

Avinash gifts to Ghanashyam, by transfer from his capital account, an amount sufficient to cover up 12J3% of capital and goodwill requirement. The balance 12.5% of capital and goodwill requirement is purchased by Ghanashyam from Avinash and Chinmoy Ltd. in the ratio of 2 : 1.

The firm asks to you :

(i) Prepare a statement showing the continuing partner's shares;

(ii) Pass journal entries including for bank transactions; and

(iii)Prepare the balance sheet of the firm after Ghanashyam's admission. **[C.A. (Inter), May 1998]**

Question 55.Shiv and Mohan are partners in a firm sharing profits and losses equally. On 31st March, 2011, the balances of their capital accounts were Rs. 3, 00,000 and Rs. 2, 00,000 respectively. The average profits of the firm are Rs. 1, 36,000 and the rate of normal profit is 20%. On 1st April, 2011 they agreed to admit Hari as a partner for one fourth share Hari will bring Rs. 1,00,000 as capital.

You are required to compute the value of the Goodwill of the firm on admission of Hari, if goodwill is to be calculated on the basis of:

1. 5 years purchase of super profit
2. Capitalization method
3. 3 years purchase of average profit. **(CA- MAY 2011) 5 MARKS**

Question 56: Ramu, Shamu and Raju were partners sharing profits and losses in the ratio of 3 :2 :2. Their Balance Sheet as on 01-01-2009 was as follows:

Liabilities	Rs.		**Assets**	Rs.
Capital Accounts			Fixed Assets	80,000
Ramu 30,000			Stock	15,000
Shamu 20,000			Debtors	12,000
Raju 20,000	70,000		Cash & Bank	1,951
Reserves	14,000			
Creditors	24,951			
	1, 08,951			**1, 08,951**

On 1st October, 2009 Ramu died. His heirs agreed that:

(i) Goodwill of the firm is valued at 2 years' purchase of average profit of past three years. Profits for the year 2006, 2007 and 2008 were Rs. 30,000, Rs. 40,000 and Rs. 47,600 respectively,

(ii) Fixed Assets be revalued at Rs. 1, 01,000.

(iii) Profit to be shared, earned in subsequent period after death of Ramu till settlement of his executors' claim. Ramu's heirs account was settled on 31-12-2009 by bringing in required cash by remaining partners in equal proportion leaving cash balance of Rs. 1,234. Each partner had drawn @ Rs. 1,000 per month for personal use.

Profit for the current year after charging depreciation of Rs. 9,000 (Rs. 6,000 for first three quarters and Rs. 3,000 for last quarter) was Rs. 46,600 earned evenly through-out the year.

You are requested to prepare Profit & Loss Appropriation A/c, Cash & Bank A/c, Ramu's Executor's A/c and Partners' Capital Accounts for the year ended on 31-12-2009 assuming remaining partners' decided not to retain goodwill in the books. **(CA- NOV 2010) 16 MARKS**

Question57;A and B are partners in a firm sharing profits and losses in the ratio of 3:2. Their capitals are Rs. 60,000 and Rs. 40,000 respectively. They admit C as a new partner who will get 1/6th share in the profit of the firm. C brings in Rs. 25,000 as his capital. Find out the amount of goodwill on the basis of the above information.

(CA- MAY 2010) 2 MARKS

Answer: Computation of Goodwill

C brings capital for 1/6th share in profit = Rs. 25,000

Total capital of the firm = Rs. 25,000 x 6 = Rs. 1,50,000

Capital of old partners should be = Rs. 1, 50,000 – Rs. 25,000 = Rs. 1,25,000

Actual combined capital of old partners

= Rs. 60,000 + Rs. 40,000 = Rs. 1,00,000

So, the goodwill of the firm = Rs. 1,25,000 – Rs. 1,00,000 = Rs. 25,000

Question 58 :X, Y and Z are partners sharing profits and losses in the ratio of 4 : 3 : 2 respectively. On 31st March, 2011 Y retires and X and Z decide to share profits and losses in the ratio of 5:3. Then immediately, W is admitted for 3/10th shares in profits, 2/3rd of which was given by X and rest was taken by W from Z. Goodwill of the firm is valued at Rs. 2,16,000. W brings required amount of goodwill.

Give necessary Journal Entries to adjust goodwill on retirement of Y and admission of W if they do not want to raise goodwill in the books of accounts.**(CA- MAY 2011) 4 MARKS**

Answer:

Date	Particulars	Dr. Rs.	Cr. Rs.
31.3.11	X's capital A/c Dr. Z's capital A/c Dr. To Y's capital A/c (3/9 x Rs. 2,16,000) (Being Y's share of goodwill adjusted in the capital accounts of gaining partners in their gaining ratio 13:11 - Refer Working Note.)	39,000 33,000	 72,000
1.3.11	Cash A/c Dr. To W's capital A/c (3/10 x ? 2,16,000) (Being the amount of goodwill brought in by W)	64,800	 64,800
31.2.11	W's capital A/c Dr. To X's capital A/c To Z's capital A/c (Being the goodwill credited to sacrificing partners in their sacrificing ratio 2:1)	64,800	 43,200 21,600

CHAPTER 9. Financial statements of Not for Profit Organisation

Question: 1 From the following information relating to Indian Cricket club, prepare Income and Expenditure Account for the ending 31st March 2016 and Balance Sheet as at that date. Abstract of Hon. Secretary's Cash Book for the year is as follows:

	Rs.		Rs.
To Member's Subscription	80,000	By Upkeep of Field and Pavilion	20,000
To Member's Admission Fee	3,000	By Expenses regarding Tournament	37,000
To Sale of Old Balls, Bats, etc.	500	By Rates and Insurance	2,000
To Hire of Ground	3,000	By Telephone	3,500
To Subscription for Tournament	40,000	By Printing and Stationary	1,000
To Bank Drawn	40,000	By General Charges	2,200
To Donation	1,00,000	By Secretary's Honorarium	5,000
		By Grass Seeds	1,300
		By bats, Balls, etc.	27,000
		By Bank Lodged	1,67,500
	2,66,500		2,66,500

Assets on 1st April, 2015		Rs.
Cash at Bank	30,000	
Stock of Bats, Balls, etc.	15,000	
Printing and Stationary	2,000	
Subscriptions due	5,000	
Liabilities on 1st April, 2015		Nil

Donation and Surplus on account of tournament should be kept in reserve for a Permanent Pavilion subscriptions due at 31st march, 2016 Rs. 7,500. write off 50% on Bats, Balls Account and 25% of Printing and Stationary Account.

Answer: surplus- 32,250, Opening B/S = 52,000 Closing B/S= 1,87,250

Question 2. You are required to calculate the income from subscriptions for the year ending December 31,2016 and show them in the Income and Expenditure Account and the Balance Sheet of a Club:

Receipts & payment account for the year ended 21st December 2016

Receipts		Amount	Payments		Amount
To Subscriptions:					
For 2015	12,500				
2016	75,000				
2017	15,00	1,02,500			

Additional Information:

(a) Subscription outstanding on December31,2015 15,000
(b) Subscription outstanding on December31,2016 12,500
(c) Subscription Received in Advance on December 31,2015 15,000

[Answer. Rs. 1,00,000]

Question 3. Calculatethe amount of subscriptions to be shown in 1999 in Income & expenditure A/c.

Subscription received in 1999 as: Rs.

1998		5,000	
1999		45,000	
2000		4,000	Rs. 54,000
Subscriptions outstanding in 1998			Rs. 7,500
Subscriptions outstanding in 1999			Rs. 7,500
Subscriptions Received in Advance in 1998			
For 1999	Rs. 6,500		
For 2000	Rs 2,000		
Life membership subscriptions received in 1999		Rs. 5,000	**[Answer. Rs. 56,500]**

Question 4. Calculate the amount of Stationery Consumed during the year 2017 from the following data:

Stock of stationery on January 1,2017	2,400
Creditors for stationery on January 1,2017	1,600
Advance paid for stationery carried forward from 2016	160
Amount paid for stationery during the year 2017	8,640
Stock of stationary on December 31,2017	400
Creditors for stationery on December 31,2017	1,040
Advance paid for stationery on December 31,2017	240

[Answer. Rs. 10,000]

Question 5. Gavaskar Cricket Club given you the following receipts and Payments Account for the year ended 31st March 2017;

Receipts	**Rs**	**Payments**	**Rs.**
To Balance of Cash on		By Salaries and Wages	12,000
1st April 2016:		By Sports Equipment	46,785
At Office 150		By Stationery and Printing	1,220
At Bank 14,200	14,350	By Maintenance of Ground	6,000
To Subscriptions	61,100 350	By Prizes	1,060
To Admission Fees		By Balance of Cash on	
To Interest on Investments @ 9%	9,000	3 1st March, 2017:	
per annum for full year		At Office 380	
		At Bank 17,355	17,735
	84,800		**84,800**

The Following additional information is provided to you:

	On 1st April 2016	**On 31st March 2017**
Subscriptions Due	480	560
Subscriptions Received in Advance	80	40
Sports Equipment	21,800	29,700
Land & Buildings (cost less depreciation)	80,000	76,000

Prepare Income and expenditure A/c for the year ended 31st March, 2017 and Balance Sheet as at that date:

[Answer: surplus- 7405, opening B/S = 2,16,630, Closing B/s = 2,23,995]

Question 6. Shanti Library Society showed the following position on 31st December 2015.

Balance Sheet as at 31st Dec., 2015

Liabilities	**Rs.**	**Assets**	Rs
Capital Fund	79,300	Electrical Fittings	15,000
Expenses Due	700	Furniture	5,000
		Books	40,000
		Investments in Securities	15,000
		Cash in Bank	2,500
		Cash on Hand	2,500
	80,000		**80,000**

The Receipt and Payments A/c for the Year ending on 31st December 2016 is given below:

Receipts	**Rs.**	**Payments**	**Rs.**
To Balance b/d		By Electric charges	720
Cash at Bank 2,500		By Postage & Stationery	500
Cash on hand 2,500	5,000	By Telephone charges	500
To Entrance fees	3,000	By Books Purchased	
To membership subscription	20,000	(on 1-1-16)	6,000
To sale proceeds of old papers	150	By Outstanding expenses paid	700
To hire of lecture Hall	2,000	By Rent A/c	8,800
To Interest on securities	800	By Investment in securities	4,000
		By Salaries A/c	6,600
		By Balance c/d	
		Cash at Bank	2,000
		Cash on Hand	1,130
	30,950		**30,950**

You are required to prepare an Income & Expenditure Account for the year ending 31-12-16 and Balance Sheet as on that date after making the following adjustments:

1. Membership subscription included Rs. 1,000 received in advance.
2. Provide for outstanding Rent Rs. 400 and Salaries Rs. 300.
3. Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

4. 75% of the entrance fees are to be capitalised.
5. Interest on securities is to be calculated @ 5% p.a. including purchases of investments made on 1-7-2016 for Rs. 4000.**[ANS: Deficit = 1,670, closing B/S = 81,580]**

Question 7. From the Following particulars relating to Charitable Hospital, prepare (1) receipts and Payment for the year ended 31st March, 2016 and (2) Balance Sheet as on 31st March 2016.

Expenditure	**Rs**	**Income**		**Rs**
To Medicines Used	2,99,800	By subscriptions		5,60,000
To Honorarium to Visiting Doctors	1,20,000	By Donations		95,000
To salaries	2,75,000	By interest on Investment @ 11% p.a		1,10,000
To Printing & Stationery	11,000	By Income from Film Show:		
To Electricity & Water	4,750	Proceeds	1,14,500	
To Rent	60,000	Less: Expenses	7,800	1,06,700
To Depreciation on furniture & Fixtures	21,000			
To depreciation on Equipment	32,500			
To Surplus i.e. excess of income over expenditure	47,650			
	8,71,700			8,71,700

Additional Information's

	On 31.3.2015 (Rs.)	**On 03.03.2016 (Rs.)**
Subscription due	1,200	1,600
Subscriptions received in advance	640	1,000
Electricity and Water Bills Unpaid	920	1,150
Stock of Medicines	78,200	97,500
Estimated value of equipment	1,16,000	1,39,000
Furniture and Fixture (cost less depreciation)	2,10,000	1,89,000
Land	----	1,00,000
Interest Accrued on Investments in 11%Debentures costing Rs. 10,25,000 (face value Rs. 10,00,000)	27,500	27,500
Cash in Hand	3,400	1,600
Cash at Bank	90,000	?

Answer: capital fund(opening) Rs 15,49,740, Subscriptions received Rs 5,59,960, Medicines Purchased Rs 3,19,100, Equipment Purchased: 55,500

Question: 8. The Lok Kalyan Dispensary had the following Income and Expenditure Accounts the Year ended for 31st March, 2016

Expenditure	Rs.	Income	Rs.
To Salaries	2,35,000	By Subscriptions	2,50,000
To Surgery and Dispensary	30,000	By Interest	90,000
To Rent and Taxes	5,000	By Donation	40,000
To Insurance	2,000	By Miscellaneous Receipts	3,000
To Office Expenses	8,000		
To Depreciation on:			
Building 37,500			
Furniture 1,200			
Instruments 1,000	39,700		
To surplus i.e. excess of income over expenditure	63,300		
	3,83,000		3,83,000

Other information is as follows:

	On 31-3-2015(Rs)	**On 3 1-3-2016 (Rs)**
Cash in hand and at bank	?	1,87,000
Government securities (face value Rs. 10,00,000)	8,00,000	8,00,000
Subscription in arrear	70,000	1,00,000
Subscriptions received in advance	2,000	6,000
Salaries unpaid	10,000	15,000
Furniture	20,000	19,800
Land & Building	20,00,000	19,62,500
Instruments	35,000	39,000
Surgery expenses due	2,000	3,000
Stock of Medicines	3,000	1,000

You are required to prepare the Receipts and Payments Account for the year ended 31st March, 2016 and also the Balance Sheet as on 31st March, 2016.

Working Notes:(a) Balance Sheet as on 31st March, 2015

Liabilities	Rs.	Assets	Rs.
Subscriptions Received in Advance	2,000	Cash in Hand and at Bank	1,08,000
Salaries Unpaid	10,000	Government Securities	8,00,000
Surgery Expenses Due	2,000	Subscriptions Outstanding	70,000
Capital Fund	30,22,000	Furniture	20,000
Balancing Figure)		Land and Building	20,00,000
		Instruments	35,000
		Stock of Medicines	3,000
	30,36,000		30,36,000

(b) **Receipts on account of Subscriptions**:

		Rs
income on account of subscriptions		2,50,000
add: subscriptions Outstanding on 31-3-15		70,000
subscriptions Received in Advance on 31-3-16		6,000
		3,26,000
Less: Subscriptions Outstanding on 31-3-2016		1,00,000
Subscriptions received in Advance on 31-3-15		1,02,000
		2,24,000

(d) **Calculation of Payment on Account of surgery and Dispensary**:

Expenses on surgery and Dispensary for the year		30,000
Add: surgery Expenses Due on 31-3-15		2,000
Stock of medicine on 31-3-2016		1,000
		33,000
Less: surgery Expenses Due on 31-3-2016	3,000	6,000
Stock of medicine on 31-3-153,000		27,000

(e) **Furniture purchased during the year:**

Value of Furniture on 31-3-2016	19,800
Add: Depreciation for the year	1,200
	21,000
Less: Value of Furniture on 31-3-15	20,000
	1,000

(f) **Calculation of Instruments Purchased:**

value of Instruments on 31-3-2016	39,000
add: Depreciation for the year	1,000
	40,000
Less: Value of Instruments on 31-3-2015	35,000
	5,000

Question: 9. The Following Income and Expenditure account of H.P Club is given for the year ended on 31st March. 2017.

	Rs.		Rs.
To Opening Stock of Provisions(goods)	10,000	By Subscriptions	86,000
To Purchases of Provisions	80,000	By Donations	30,000
To Salaries	60,000	By Entrance Fees	8,000
To Printing and Stationery	5,000	By Sale of Provision	68,000
To general Expenses	3,000	By Closing Stock of Provisions	
Depreciation on Equipments	1,000		5,000
To Excess of Income			
Over Expenditure	38,000		
	1,97,000		**1,97,000**

The Following further informations are given:

Balance Sheet of the Club as on 31st March, 2016

	Rs.		Rs.
Creditors for Provision	8,000	Equipment (at written down value)	10,000
General Fund	37,000	Stock of provisions	10,000
		Cash in hand and at Bank	20,000
		Subscriptions Receivable	5,000
	45,000		45,000

Balance Sheet of the Club as on 31st March, 2017

	Rs.		Rs.
Creditors for Provision	10,000	Equipment (at written down value)	15,000
General Fund	75,000	Stock of provisions	5,000
		Cash in hand and at Bank	45,000
		Subscriptions Receivable	20,000
	85,000		85,000

Prepare a Receipt and Payment Account of the club for the year ended on 31st March, 2017, from the above information.

Answer: **Receipt and Payments A/c of the H.P. Club For the ended 31st March, 2017**

		Rs.			Rs.
To Balance b/d			By Salaries		60,000
Cash in Hand & at bank		20,000	By Printing & Stationery		5,000
To Subscriptions	86,000		By General Expenses		3,000
Less: Outstanding on 31.3.17	20,000		By Creditors for provision		28,000
66,000			By Equipment:		
Add: Outstanding on 31-3-16	5,000	71,000	As on 31-3-2017	15,000	
To donations		30,000	Add: depreciation for the year	1,000	
To Entrance Fees		8,000	16,000		
To Sale of Provision		68,000	Less: Equipment		
			As on 31-3-16	10,000	6,000
			By Balance c/d		
			Cash in hand and a bank		45,000
		1,97,000			1,97,000

Question: 10. From the following Receipts and Payments Account of Excellent Recreation Club for the year ended 31.3.16 and additional information given, prepare Income and Expenditure Account for the year ended 31.3.16 and Balance Sheet as on date

Receipts	**Rs.**	**Payments**	**Rs.**
Opening Balance :		Secretary's Salary	12,000
Cash in hand & at Bank	3,180	Salaries to staff	25,000
Subscription	18,000	Charities	1,000
Sale of old Newspapers	2,500	Printing & Stationery	600
Legacies	4,000	Postage Expenses	120
Interest on Investments	2,000	Rates and Taxes	1,500
Endowment Fund Receipts	20,000	Upkeep of the Land	2,000
Proceeds of Sport & Concerts	4,020	Purchase of Sports Materials	10,000
Advertisement in the year book	5,000	Telephone expenses	3,480
		Balance of cash and bank	3,000

Assets and Liabilities as on 31.3.15 and 31.3.16 were as follows:

	31.3.15 (Rs.)	31.3.16 (Rs.)
Subscription in arrears	2,000	1,000
Subscription received in advance	500	400
Furniture	2,000	1,800
Land	10,000	10,000

Depreciation shall be charged at 10% p.a. under the diminishing value method. Legacies received shall be capitalised. Investments were made in Securities, the rate of interest being 12% p.a. the date of investments was 1.6.14 and the amount of investments was Rs. 20,000. Due date of interest 31stMarch, every year. Stock of sports materials on 31.3.16 were useless and value NIL. **[CA-May-96]**
[Answer: Deficit i.e. Excess of Expenditure over Income: 24,880 and Balance Sheet : 36,200]

Question: 11 From the following receipts and Payments A/c of Mumbai Club, Prepare Income and Expenditure A/c for the year ended 31.12.1996 and its balance Sheet as on that date:

Receipts	**Rs.**	**Payments**	**Rs.**
Cash In Hand	4,000	Salary	2,000
Cash at Bank	10,000	Repair Expenses	500
Donations	5,000	Purchase of Furniture	6,000
Subscriptions	12,000	Misc. Expenses	500
Entrance fees	1,000	Purchase of Investments	6,000
Interest on Investments	100	Insurance Premium	200
Interest Received from Bank	400	Billiard Table	8,000
Sale of Old Newspaper	150	Paper, Ink. Etc.	150
Sale of Drama tickets	1,050	Drama Expenses	500
		Cash in Hand (Closing)	2,650
		Cash at Bank (Closing)	7,200

	33,700		**33,700**

Information:

1. Subscriptions in arrear for 1996, Rs. 900 and subscriptions in advance for 1997, Rs. 350.
2. Insurance premium Outstanding Rs. 40.
3. Misc. Expenses Prepaid Rs. 90.
4. 50% of donation is to be capitalised.
5. Entrance fees are to be treated as revenue income.
6. 8% interest has accrued on investment for five months.
7. Billiard Table costing Rs.30,000 was purchased during the last year and Rs. 22,000 were paid for it. **[Nov-97 CA foundation-20 marks]**

[Answer: Surplus i.e. Excess of Income over Expenditure:14,150, Balance Sheet: 53,040]

Question: 12 The following information were obtained from the books of Delhi Club as on 31.3.1998, at the end of the first year of the Club. You are required to prepare Receipts and Payments Account, Income and Expenditure Account for the year ended 31.3.1998 and a Balance Sheet as at 31.3.1998 on mercantile basis:

Donations received for Building and Library Room **Rs. 2,00,000**

Other revenue income and actual receipts:	**Revenue (Income Rs.)**	**Actual Receipts (Rs.)**
Entrance Fees	17,000	17,000
Subscription	20,000	19,000
Locker Rent	600	600
Sundry Income	1,600	1,060
Refreshment Account	---	16,000

3. Other Revenue Expenditure and actual Payments:

	Revenue Expenditure	**Actual Payments**
Land (Cost Rs. 10,000)	-----	10,000
Furniture (cost Rs. 1,46,000)	-----	1,30,000
Salaries	5,000	4,800
Maintenance of Playgrounds	2,000	1,000
Rent	8,000	8,000
Refreshment Account	-----	8,000

Donations to the extent of Rs. 25,000 were utilized for the purchase of Library Books. Balance was still unutilized. In order to keep it safe, 9% govt. Bonds of Rs. 1,60,000 were purchased on 31-3-1998. Remaining amount was put in the Bank on 31-3-98 under the term deposit. Depreciation at 10% p.a. was to be provided for the whole year on Furniture and Library Books.

[CA-Nov. 98]20 marks

[Answer: Balance c/d: Overdraft; 1,08,140; Surplus i.e. Excess of Income over Expenditure: 15,100, Balance Sheet 3,40,440]

Question: 13 Mahaveer Sport Club given the following Receipts and Payments account for the year ended March 31, 2017

Receipts	**Rs**	**Payments**	**Rs**
To Opening Cash & Bank Balance	5,200	By Salaries	15,000
To Subscriptions	34,800	By Rent & Taxes	5,400
To donations	10,000	By Electricity Charges	600
To Interest on Investments	1,200	By Sports Goods	2,000
To sundry Receipts	300	By Library Books	10,000
		By Newspaper & Periodicals	1,080
		By Miscellaneous Expenses.	5,400
		By Closing Cash and Bank Balance	12,020
	51,500		**51,500**

	As on 31. 3.16 .	**As on 31. 3.17.**
Outstanding Expenses:		
Salaries	1,000	2,000
Newspaper and Periodicals	400	500
Rent and Taxes	600	1,000
Electricity Charges	800	---
Library Books	10,000	---
Sports Goods	8,000	-----

Furniture and Fixtures	10,000	-----
Subscriptions Receivable	5,000	12,000
Investment- Government Securities	50,000	---
Accrued Interest	600	600

Provide Depreciation on:

Furniture and Fixtures	@ 10% p.a
Sports Goods	@ 20% p.a.
Library Books	@ 10%p.a.

You are required to prepare Club's Opening Balance Sheet as on 1.4.16, Income and Expenditure Account forthe year ended on 31.3.17 and Balance Sheet as on that date. **[CA-Nov-99]20 marks**

Question: 14 prepare the Income and Expenditure Account and the Balance Sheet from the following information.

Receipts and Payment Account of Zee club, Delhi

For the year ending on 31st December 2012

Receipts		Rs.	Payments	Rs.
To Balance b/d (cash)		1,025	By Upkeep of fields	220
To Subscriptions:			By Salaries	600
2011	40		By Drama Expenses	450
2012	2,050		By Newspapers	150
2013	60	2,150	By Books	100
To Admission Fees		40	By Municipal Taxes	40
To Life Membership Subscription		100	By Charity	350
To Donations (on 1.8.2012)		500	By 12% General Investments	500
To Subscription for Tournament		1,500	(on 1.8.2012)	
(on 1.8.2012)			By 12% Tournament Fund	
To sales of old newspapers		45	Investments (on 1.8.2012)	1,500
To sale of old bats etc.		50	By Tournament Expenses	1,200
To Proceeds of drama tickets		950	By Bats, Balls etc.	700
To Sale of old furniture		60	By Printing and Stationery	100
(costing Rs. 100)			By Furniture	250
To Interest on 12% general Invest.		12.50	By Balance c/d (cash)	3,760
To Interest on 12% Tournament				
Fund Investments		37.50		
To Subs.for Governor's Party		3,450		
		9,920		**9,920**

Additional Information

a. There are 500 members each paying an annual subscription of Rs.5. Rs.50 are still in arrear for the year 2011.
b. Municipal taxes amounting to Rs.40 per year have been paid upto 31 March 2013 and Rs.50 are outstanding for salaries.
c. On 1.1.2012 the club owned building valued at Rs.5,000, Stock of Bats and Balls Rs. 1,500, Printing and Stationery Rs.200, Cash at Bank Rs.3,000, Books Rs.500 and Furniture Rs,600.
d. Write 50% off Bats and Balls (without considering sale), 25% off printing and stationery.
e. Special subscription for governor's party outstanding Rs.550.
f. Admission fees to be treated as of revenue nature but Life Membership is to be treated as of Capital nature.

[Ans. Surplus Rs. 1,035; Closing Balance Sheet Total Rs. 17,545]

Question: 15 Prepare Income and Expenditure Account and Balance Sheet of Ramdas College Sports Club, Delhi from the following information: ('000)

Receipts	Rs.	Payments		Rs.
To Balance b/d Cash	150	By Balance b/d (Bank Overdraft)		3,000
Stamps	50	By Insurance (paid up to 30.6.2012)		300
To subscriptions	7,000	By Miscellaneous Expenses		3,875
To Entrance fees	200	By Postage Expenses		200
To Life Membership Subscription	500	By refreshment Room Expenditure		2,100
To General Donations	2,000	By Furniture (Purchased on [1.10.11])		600
To Cricket Fees	250	By Honorarium to Cricket coach		600
To Refreshment Room Receipts.	3,100	By Sports Equipment (on 1.10.11)		2,200
To Sale of Old periodicals	72	By 10% RBI Tax Free Bonds		10,000
To Interest on Govt. Securities	144	(on 1.1.12) (Pavilion)		
(T.D.S. @ 20%)		By Balance c/d:		
To Donation for club Pavilion	10,000	Cash in Hand	52	
(on 1.1.2012)		Cash at Bank	514	
		Stamps	25	591
	23,466			23,466

Particulars	1.4.2011 Rs.'000	31.3.2012 Rs. '000
Club Pavilion Fund	5,000	?
Sports Equipment	4,500	?
Furniture	3,200	?
Stock of Foodstuff	120	80
6% Government Security (Face Value Rs.30,00,000)	2,580	?
Subscription Outstanding	600	250
Subscription in Advance	-	300
Outstanding Miscellaneous Expenses	200	250

Accounting policies followed by Ramdas Sports Club, Delhi are as under:
The sports equipment and furniture are to be depreciated @25% and 10% p.a. respectively.
One-half of the entrance fees and life membership fee are to be treated as income.
(CMA INTER 16 MARKS) [Answer. Surplus Rs.2,872; Closing Balance Sheet Total Rs.22,022]

Question: 16 Prepare Income and Expenditure Account and Balance Sheet of Bhagat Singh College Sports Club. Delhi

Receipts and Payments Account of Bhagat Singh College Sports Club, Delhi for the year ended on 31st March 2003.

Receipts		Rs.	Payments	Rs.
To Balance b/d	Cash	500	By Rent	9,750
	Bank	4,000	By miscellaneous Expenses	28,800
	Stamps	300	By Postage Expenses	1,200
To Subscription			By Furniture	8,000
4,650			By Creditors for Sports Material	12,200
67,200			By cost of prizes (to be awarded)	4,150
2,600		74,450	By Cash Purchase of Sports	
To Entrance Fees		8,000	Materials	2,000
To general donations		4,050	By Match Expenses	7,030
To Donations for Prize Fund		2,800	By Balance c/d	
To Sale of old Sports Materials		5,200	Cash	545
To Interest on Prize Fund Investments		300	Bank	26,000
To Miscellaneous Receipts		225	Stamps	150
		99,825		99,825

Information

Particulars	1.4.2002 Rs.	31.3.2003 Rs.
Sports Materials	4,000	5000
Furniture	40,000	?
5% Prize Fund Investment (Face Value Rs. 12,000)	11,700	?
Creditors for Sports Materials	1,400	2,950
Subscription in arrears	4,750	?
Subscription in advance	1,400	?
Prize Fund	12,000	?
Rent paid in advance	--	750
Outstanding rent	750	?
Outstanding Miscellaneous Expenses	2,280	4,020
Miscellaneous Expenses paid in advance	750	850

Book Value of Sports Materials sold was Rs.4,000. Depreciation on furniture is to be provided @10%. Half of entrance fees to be capitalised. There are 720 members, each paying an annual subscription of Rs. 100
[Answer, Surplus Rs.19,005 Closing Balance Sheet Total. Rs.91,995] (CMA INTER 16 MARKS)

Question: 17 The following is the Receipts and Payments Account of Apollo Club in respect of the year to 31 March 2003.

Receipts		Rs.	Payments	Rs.
To Balance b/d			By Salaries	3,000
Cash in hand		2,000	By Stationery	1,000
To Subscriptions:			By Rates and Taxes	300
2001-2002	3,000		By Telephone Charges	1,500
2002-2003	4,000		By 8% Securities at par	5,000
2003-2004	1,000	8,000	By Sundry Expenses	200
To Profit on sports		3,000	By Balance c/d	
To Interest on 8% Securities		1,000	Cash in hand	3,000

The following additional facts are ascertained:

a. There are 500 members, each paying an annual subscription of Rs.10; Rs.3,500 being in arrears for 2001-2002 at the beginning of 2002-2003. During 2001-2002, subscriptions were paid in advance by 30 members for 2002-2003.
b. Stock of stationery at 31 March 2002 was Rs.400 and at 31 March 2003, Rs.500.
c. At 31 March 2003, the rates and taxes were prepaid to the following 31st January. The yearly charge being Rs.300.
d. A quarter's charge for telephone is outstanding, the amount accrued being Rs.300. The charge for each quarter is same for both 2001 -2002 and 2002-2003.
e. Sundry Expenses accruing at 31 March 2002 were Rs.50 and at 31 March 2003 Rs.60.
f. At 31 March 2002 Building stood in the books at Rs.30,000 and it is required to write off depreciation at 10% p.a.
g. Face Value of 8% Securities at 31 March 2002 was Rs. 15,000 which was purchased at that date for Rs. 10,000. Additional Securities worth Rs.5,000 are purchased at par on 31 March 2003.

You are required to prepare:

i.) An Income and Expenditure Account for the year ended 31 March 2003, and
ii.) A Balance Sheet at that date.

[Ans. Surplus Rs.590; Closing Balance Sheet TotalRs. 52,150] (CMA INTER 16 MARKS)

Question: 18 The following is the Receipts and Payments Account of Modern Club for the year ending on 31st March 2013.

Receipts		Rs.	Payments	Rs.
Cash in hand	150		Honorarium of Secretary &Treasurer	4,800
Bal. as per Bank Pass Book	8,230	8,380	Rates and Taxes	1,260
Subscriptions		10,710	Printing and Stationery	470
Receipts from fees		2,400	Other Miscellaneous Expenses	1,530
Net proceeds of variety Entertainment		4,270	Ground man's wage	840
Bank interest		230	Expenditure on fetes	2,390
Bar takings		7,450	Payments for bar Purchases	5,770
Cash Overspent		20	Repairs	320
			New Car (less sale proceeds of old car Rs. 3,000)	12,600
			Balance as per pass Book	3,480
		33,460		**33,460**

You are given the following additional information:	**1.4.2012**	**31.3.2013**
Subscription due	1,200	980
Unpresented cheques being payment on printing	90	30
Club premises at cost	29,000	---
Depreciation on club premises	18,800	---
Car at cost	12,190	---
Depreciation on car	10,290	----
Value of bar stock	710	870
Amount due for bar purchases	590	430

Cash overspent represents amount of honorarium to the treasurer not drawn due to shortage of fund. But the total salary payable to him for the year was already included in 4,800. Depreciation is to be provided @ 5% p.a. on the w. d. v of the premises and @ 15% p.a. on car for the whole year.

You are required to adjust bank balance according to cash book and prepare:

An Income and Expenditure Account of the Club for the year ended 31 March 2013.

A Balance Sheet as on 31 March 2013 **(ICWA—INTER) (CA- PE2 NOV 2004(20 MARKS)(MODIFIED)**

[Answer. Surplus Rs.6,090 ; Closing Bal. Sheet Total Rs.28,250]

Question: 19 Following is the summary of bank transactions of club for the year ending 31st March 2013

Receipts	Rs.	Payments	Rs.
To Petty cash in hand	150	By Rent	600
To Balance as per Pass Book	2,000	By Entertainment	800
To Subscriptions	2,500	By Advertisement (for 2011-2012	200
To Entertainment	1,900	Rs.50)	
To Legacy (to be capitalized)	800	By Capital Expenditure	2,000
To Donation for Books	500	By Upkeep of Grounds	300
To General Donation	500	By Bank Charges	30
		By Salary	1,500
		By Petty Expenses	80
		By Balance as per Pass Book	2,770
		By Petty Cash in Hand	70
	8,350		**8,350**

Information:

	1.4.2012	31.3.2013
	Rs.	
Unpresented cheque being payment for rent	100	50
Interest on fixed deposit of Rs. 10,000 not entered in the pass book.	-----	600
Entry in respect of bank charges was not passed through the cash book.	---	30
A member deposited subscription for 2013-2014		
Direct into bank, not passed through the cash book	----	20
Cheques deposited for subscription but not yet cleared		
By the bank	800	600

Prepare Income and expenditure Account for the year ending 31st March 2013 and Balance Sheet as on that date.
[Ans: Surplus. Rs. 1870; Closing Balance Sheet Total Rs. 15,990]

Question: 20 The Lok Kalyan Dispensary had the following:

Income and Expenditure Account for the year ending on 31st March 2012

Expenditure		Rs.	Income	Rs.
Salaries		23,500	Subscriptions	25,000
Surgery and Dispensary		3,000	Interest	9,000
Rent and Taxes		500	Donations	4,000
Insurance		200	Miscellaneous Receipts	300
Office Expenses		800		
Depreciation:				
Building	3,750			
Furniture	120			
Instruments	100	3,970		
Surplus		6,330		

	31.03.2011	31.3.2012
	Rs.	Rs.
Information		
Cash in hand and at bank	?	18,700
4.5% Tax free Government Securities		
(Face Value Rs.2,00,000)	1,80,000	1,80,000
Subscription outstanding	7,000	10,000
Subscription received in advance	200	600
Salaries unpaid	1,000	1,500
Furniture	2,000	1,980
Land and Buildings	1,00,000	96,250
Instruments	3,500	3,900
Surgery Expenses due	200	300
Stock of medicines	300	100

Prepare Receipts and Payments Accounts of the year ending on 31st March 2012

(Ans; Opening cash and bank balance Rs 10,800)

Question: 21 From the following Receipts and Payments Account of a Modern (India) Club and from the supplied information, prepare income and Expenditure Account for the year ended 31st March 2013 and Sheet as on that date:

Receipts	Rs.	Payments	Rs.
To Balance b/d	7,000	By Tournament Expenses	1,100
To Donation for Building	8,000	By Furniture	2,000
To General Donations	200	By Curtains	800
To Legacies	6,000	By Crockery	400
To Sale of old furniture	75	By Sports Materials	1,200
(costing Rs.80)		By Salaries	1,300
To Endowment Fund Receipts	10,000	By Honorarium	2,600
(to be capitalized)		By Charities	8,000
To Sale of Newspapers	400	By Advertisements	250
To sale of Sports Materials	80	By Rent and Taxes	1,400
To Rent Received from use of hall	1,500	By Advance against Construction of Building	5,000
To advertisement in the year book	400	By Cost of Entertainment	1,450
To proceeds of Concerts	1,200	By Payment to Creditors of last year	400
To Subscriptions:		By Electric Installation Expenses	3,000
2011-2012 600		By Library Books	800
2012-2013 14,000		By Newspapers	1,300
2013-2014 800	15,400	By Postage	700
To Tournament Fund	1,500	By Bar Expenses including Purchase	1,600
		By 7% investments Purchased on 1.10.12	10,000
		By Balance c/d	8,455
	51,755		**51,755**

Information :
Balance on 31st March 2013; Sports Material Rs. 100, Bar Stock Rs. 120, Postage Rs. 20.
Subscription outstanding on 31st March 2013 was Rs. 70.
Salary outstanding on 31st March 2013 Rs. 50
Salary paid included Rs. 80 paid for 2011-2012 and Rs. 10 for 2013-2014.
Investments included investments out of Building Donations Rs. 8,000.
[Ans: Deficit Rs. 975; Opening Capital fund Rs. 7200, Total of Closing Bal. Sheet Rs. 31,755

Question: 22 From the following Trial Balance of the Gayatri Education Society as on 31st March 2017, prepare an Income and Expenditure Account and a Balance Sheet.

	Dr. (Rs.)	**Cr. (Rs.)**
Furniture and Fittings	12,500	
Additions to Furniture during the year	3,200	
Library Books	17,500	
Additions to Library during the year	4,300	
Buildings	2,75,000	
General Investments	1,50,000	
Reserve Fund		15,000
Sundry Debtors and Creditors	5,000	14,500
Entrance Fees		15,200
Examination Fees		2,400
Subscriptions Received		20,000
Certificate Fees		500
Hire of Society's Hall		6,500
Interest realized on Investment		5,500
Sundry Receipts		600
Staff salaries	10,200	
Printing and Stationery and Advertising	1,000	
Taxes and Insurance	800	
Examination Expenses	600	
Subscription of Periodicals	1,200	
Prize Trust Fund		16,000
Prizes Trust Investment	15,800	
Prize Trust Income		650
Prize Awarded	450	
Prize Fund Bank Balance	275	
Donations received (to be capitalized)		18,000
General Expenses	375	
Capital Fund		3,89,150
Cash at Bank	5,500	
Cash at office	300	
	5,04,000	**5,04,000**

The following further information is supplied to enable you to make the necessary adjustments:

	Rs.
Subscriptions to be received	4,500
Subscriptions received in advance	500
Interest on General Investment accrued	450
Staff Salaries outstanding	1,800
Taxes and Insurance paid in advance	500

Provide depreciation at the following rates (including the additions):

On Library Books @ 15% ,On Furniture and Fittings @ 5% , On Building @ 1% p.a.

The market value of General Investments on 31st March 2017 was Rs. 1,30,000, but you are not requiredto bring down the book value to this level. Ignore Income Tax. **[Ans. Surplus-Rs.32,870; Total of Closing Bal. Sheet Rs.4,88,020.] (CMA INTER 16 MARKS)**

Question: 23 A political association prepared its accounts on 31st of December every year. Following information is available for the year 2017:

They started the year with Rs. 20,000 cash and bank balance and ended with a cash and bank balance of Rs. 9,650.

They received subscription amounting to Rs. 8,350 of which Rs. 250 represented arrears of 2016, Rs. 7,600 for current year and Rs. 500 received in advance for the year 2018.

They received Rs. 5,200 donation to Capital Fund and Rs. 8,500 to Election Fund. Balance of Election Fund on 1-1-2017 amounted to Rs. 150 and election expenses paid during the year were Rs. 7,200.

They held Rs. 10,000 investments on 1-1-2017 and interest received on investment during 2017 amounted to Rs. 1,400.

Office space was purchased during the year at a cost of Rs. 30,000 out of which Rs. 20,000 was to be treated as loan and the balance was paid in cash.

Office furniture was valued at Rs. 1,500 on 1-1-2017 and Rs. 1,700 was paid for additions during the year.

At the end of the year, furniture was valued at Rs. 2,500. Cost of literature published and distributed amounted to Rs. 750 and Rs. 1,200 was collected on distribution of literature.

Other payments during the year 2017 were as follows :

Salaries: Rs. 10,500 (out of which Rs. 500 related to the year 2018)

Rent: Rs. 1,700 (Out of which Rs. 500 related to the year 2016)

Meeting and Propaganda Rs. 1,650 (Rs. 300 paid for arrangement of meetings to be held in the year 2018), Stationery Rs. 1500

Prepare:**1**.Receipt and Payment Account for the year ended 31-12-2017; **2**. Income and Expenditure Account for the year ended 31-12-2017; **3**. Balance Sheet as at 1-1-2017; and **4**. Balance Sheet as at 31 -12-2017.

Answer: Receipt and Payment Account for the year ending December 31, 2017

Receipt	Amount	Payment	Amount
To Balance b/d	20,000	By Building (payment for	
To Subscription Received	8,350	Purchase of office space)	10,000
To Interest Received	1,400	By Furniture Purchased	1,700
To Sale of Literature	1,200	By Salaries Paid	10,500
To Donation to Capital Fund	5,200	By Rent Paid	1,700
To Donation to Election		By Meeting and	
Fund	8,500	Propaganda Expenses Paid	1,650
		By Stationery Purchased	1,500
		By Cost of Literature Paid	750
		By Election Expenses	7,200
		By Balance c/d	9650
	44,650		44,650

Income and Expenditure Account for the year ending December 31, 2017 Cr.

Expenditure		*Amount*	*Income*		Amount
To Salaries		10,000	By Subscription		7,600
To Rent		1,200	By Interest on Investments		1,400
To Stationery Consumed		1,500	By Sale of Literature	1,200	
To Meeting & Propaganda		1,350	*Less* Cost of Literature	750	450
			By Excess of Expenditure Over		
To Depreciation on Office			Income		5,300
Furniture:					
Balance on 1-1-2017	1,500				
Add Purchased	1,700				
	3,200				
Less Closing Balance	2,500	700			
		14,750			14,750

Balance Sheet as at January 1, 2017

Liabilities	Amount	Assets	Amount
Rent Outstanding Election Fund	500	Cash	20,000
Capital Fund *(Bal. figure)*	150	Subscription Outstanding	250
	31,100	Investments	10,000
		Furniture	1,500
	31,750		31,750

Balance Sheet as at December 31, 2017

Liabilities		Amount	Assets		Amount
Subscription Received in Advance		500	Cash		9,650
Loan for Building		20,000	Advance Salary		500
Election Fund on 1-1-2017	150		Advance for Meetings		300
Add Donation	8,500		Investments		10,000
	8,650		Furniture on 1-1-2017	1,500	
Less Expenses	7,200	1,450	Add: Purchased	1,700	
Capital Fund on 1-1-2017	31,100 5,200			3,200 700	
Add Donation			Less Depreciation Building.		2,500
	36,300				30,000
Less Deficit	5,300	31,000			
		52,950			**52,950**

Question: 24 Following is the receipts and payment Account of Roshnara club for the year ending December 31, 2001:

		By salaries	15,000
Balance b/d		By electricity Bills	20,000
Cash	20,000	By foodstuffs for restaurant	40,000
Bank	50,000	By telephone bills	25,000
To subscription 2000	10,000	By 18% investments	78,000
2001	80,000	(31-3-2001)	
2002	8,000	By sport expenses	40,000
To donation to sports fund	20,000	By subscription for periodicals	10,000
To sale of furniture (book value Rs.5,000)	8,000	By balance c/d	
To sale of old periodicals, newspapers etc.	2,000	Cash	17,000
To sale of foodstuffs	80,000	Bank	43,000
To rent of ground for Marriages	10,000		
	2,88,000		**2,88,000**

Additional Information:

(a) During 2001, the club had 90 members, each paying an annual subscription of Rs.1,000. Out of twelve members, who had not paid annual subscription during 2000, ten members cleared their arrears in 2001 and the arrears of subscription of remaining two members who left the club on 1-1-2001 were treated as irrecoverable.

(b) During 2001 Rs.2500 was deposited with MahanagarTelephone Nigam Limited for adjustment of telephone bills. On 31-12-2001 following statement was received from MTNL office:

Amount deposited	25,000	
Interest on deposit	2,000	
		27,000
Less Telephone rent and bills for 2001		15,000
Balance of deposit on 31-12-2001		12,000

(c) Advance payment of subscription for periodicals magazines, newspapers etc., amounted to Rs.2000 and Rs.4000 at the end of 2000 and 2001 respectively.

(d) Stock of foodstuffs for restaurant run by the club amounted to Rs.12,000 and Ras.15,000 at the end of 2000 and 2001 respectively.

(e) On 1-1-201 other balances were as follow:

Furniture	80,000
Building	5,00,000
Sports fund	10,000

(f) Depreciate furniture and building @20%

Prepare Income and Expenditure Account and Balance sheet as 31-12-2001

Answer:

Balance sheet as at December 31, 2000

Liabilities	Amount	Assets	Amount
Sports fund	10,000	Cash	20,000
Capital fund		Bank	50,000
(balancing figure)	6,66,000	Advance subscription for periodicals	2,000
		Subscription outstanding	12,000
		Stock of foodstuffs	12,000
		Furniture	80,000
		Building	5,00,000
	6,76,000		6,76,000

Income and Expenditure Account for the year ending December 31, 2001

To Salaries		15,000	By Subscription for 2001	80,000	
To Electricity Expenses		20,000	*Add* Outstanding for 2001	10,000	90,000
To Foodstuff Purchased	40,000		By Sale of Old Periodicals		2,000
Add Opening Stock	12,000		By Interest on Deposit with MTNL		2,000
	52,000		By Profit on Sale of furniture		3,000
Less Closing Stock	15,000	37,000	(Rs.8,000 - Rs.5,000)		
To Telephone Expenses		15,000	By Sale of Foodstuff		80,000
To Sports Expenses	40,000		By Rent of Ground for Marriages		10,000
Less Sports Fund on 1-1-2001	10,000		By Excess of Expenditure Over Income		35,000
	30,000				
Less Donation	20,000	10,000			
To Subscription for Periodicals	10,000				
Add Advance on 1-1-2001	2,000				
	12,000				
Less Advance on 31-12-2001	4,000	8,000			
To Depreciation on Furniture		15,000			
To Depreciation on Building		1,00,000			
To Subscription for 2000 Written off		2,000			
		2,22,000			2,22,000

Balance Sheet as at December 31, 2001

Liabilities		Amount	Assets		Amount
Subscription Received in Advance		8,000	Cash		17,000
Sports Fund on 1-1-2001	10,000		Bank		43,000
Add Donation	20,000		Advance Subscription for Periodicals		4,000
	30,000		Subscription Outstanding		10,000
Less Sports Expenses	40,000		Stock of Foodstuffs		15,000
	10,000		Investments		78,000
Transferred to Income			Deposit with MTNL		12,000
& Expenditure A/c	10,000	—	Furniture	80,000	
			Less Sold	5,000	
Capital Fund on 6,66,000					
Less Deficit 35,000				75,000	
		6,31,000	*Less* Depreciation	15,000	60,000
			Building	5,00,000	
			Less Depreciation	1,00,000	4,00,000
		6,39,000			6,39,000

Question:25 The following is the Income and Expenditure Account of Delhi Youth Club for the year ended 31st March, 2001 :

Dr. Income and Expenditure Account for the year ended 31st March, 2001 Cr.

To Salaries	19,500	By Subscription	68,000
To Rent	4,500	By Donation	5,000
To Printing	750		
To Insurance	500		
To Audit Fees	750		
To Games & Sports	3,500		
To Subscriptions written off	350		
To Misc. Expenses	14,500		
To Loss on Sale of furniture	2,500		
To Depreciation :			
Sports Equipment	6,000		
Furniture	3,100		
To Excess of Income over expenditure	17,05073,000		
			73,000

Additional Information:

	31-3-2000	31-3-2001
	Rs.	Rs.
Subscription in arrears	2,600	3,700
Advance Subscriptions	1,000	1,500
Outstanding expenses:		
Rent	500	800
Salaries	1,200	350
Audit Fees	500	750
Sports Equipment less depreciation	25,000	24,000
Furniture *less* depreciation	30,000	27,900
Prepaid Insurance	—	150

Book value of furniture sold is Rs. 7,000. Entrance fees capitalised Rs. 4,000. On 1st April, 2000, there was no cash in hand but Bank Overdraft for Rs. 15,000. On 31st March, 2001, Cash in hand amounted to Rs. 850 and the rest was Bank balance. Prepare the Receipts and Payments Account of the Club for the year ended 31st March, 2001.

[ICWA—Adapted]

Answer: Receipts and Payments Account for the year ended 31-3-2001

To Subscription A/c	67,050	By Balance b/d: Bank		15,000
To Donation A/c	5,000	By Salary	19,500	
		Add Outstanding last year	1,200	
		Less Outstanding this year	350	20,350
To Entrance Fees A/c	4,000	By Rent	4,500	
		Add Outstanding last year	500	
		Less Outstanding this year By	800	4,200
		Printing		750
To Furniture A/c (Sale of furniture) (7,000-4,500)	4,500	By Insurance	500	
		Add Prepaid this year	150	650
		By Audit Fees	750	
		Add Outstanding last year	500	
		Less Outstanding this year By	750	500
		Games & Sports		3,500
		By Miscellaneous Expenses		14,500
		By Sports Equipment (Purchased)		5,000
		By Furniture (Purchased)		8,000
		By Balance c/d		
		Cash		850
		Bank *(balancing figure)*		7,250
	80,550			80,550

Question 26: From the following information, prepare Balance Sheet as at December 31, 2001 :

Dr. Income and Expenditure Account for the year ending December 31, 2001 Cr.

To Salaries		15,000	By Subscriptions	40,000
To Audit Fees		2,000	By Sale of Foodstuff	20,000
To Purchase of Foodstuffs	15,000		By Rent	5,000
Less Closing Stock of Foodstuffs	3,000	12,000		
To Insurance Premium		1,000		
To Depreciation on Fixed Assets		3,000		
To Excess of Income over Expenditure		32,000		
		65,000		65,000

Dr. Receipts and Payment Account for the year ending December 31, 2001 Cr.

To Balance b/d		5,000	By Salaries	10,000
To Subscription	2001	35,000	By Audit Fees for 2000	1,000
	2002	6000	By Purchase of Foodstuffs	15,000
To Rent Received		4,000	By Insurance Premium	2,000
To Sale of Foodstuffs		20,000	By Fixed Assets	20,000
			By 12% Fixed Deposit (31-12-2001)	10,000
			By Balance c/d	12,000
		70,000		70,000

On 31-12-2000, following balances appeared in the books of Delhi Club : Building—Rs.50,000 ; Furniture—Rs. 10,000.

Question:27. Following is the Income and Expenditure Account of Victoria Club for the year ending 31st March ,2006:

Expenditure		**Amount**	**Income**		**Amount**
To dep. On equipment		1200			
To Salaries & Wages		19,000	By Subscription		30,000
To Misc. Expenses			By Entrance fees received		1,000
(including Insurance)		2,000	By Annual Sports Income		
To Audit fees		1,000	Receipts	6,000	
To Chief Executive '			Less: Expenses	3,000	3,000
Honorarium		4,000			
To Printing and Stationary		1,800			
To Annual day					
Celebration Exp.	6,000				
Less – Donation	4,000	2,000			
To Interest on Bank Loan		600			
To Excess of Income over					
Expenditure		2,400			
		34,000			**34,000**

Additional Information :

	31.3.05 (Rs.)	**31.03.06** (Rs)
(i) Subscription outstanding	2,400	3,000
(ii) Subscription received in advance	1,800	1,080
(iii) Salaries outstanding	1,600	1,800
(iv) Sports equipment (after deducting depreciation)	10,400	10,800
(v) Prepaid Insurance	-	240
(vi) Cash in Hand	?	6,400

The Club owned a Sports' ground of Rs. 40,000
The Club took a loan of Rs. 8,000 from a bank during the year 2004 – 05,which was not paid in 2005 – 06.
Audit fee of 2005 – 06 was outstanding, but an Audit fee of Rs. 800 for 2004 – 05 was paid in 2005 – 06.
Prepare Receipts and payments Account for the year ending 31st March,2006 and a Balance Sheet on that date.

Answer: Opening balance of cash Rs. 5560. (CA-Inter2006 – May)

Question.28. Following is the Receipts and Payments Account of M/s Tiptop Club for the year ended 31st March. 2006:

Receipts	**Rs.**	**Payment**	**Rs.**
To Cash in hand on	9,000	By Payment for cosmetics	15,000
1st April ,2005		By Honorarium to Beautician	8,000
To Subscription	45,000	By Salaries	18,000
To Donation	4,500	By Sunday expenses	1,000
To Interest on Investments	3,000		
At 6% for the year		BY Rent for building	12,000
To Fashion show	50,500	By Equipments purchased	13, 000
Proceeds		By Fashion show expenses	34,000
		By Cash in hand on	11,000
		31stMarch , 2006	
Total	**1,12,000**	**Total**	**1,12,000**

Additional information:

	On 1stApril , 2005	On31st March, 2006
(i) Subscription due	500	2,000
(ii) Subscription received in advance	1,500	1,000
(iii) Stock of cosmetics	10,000	7,000
(iv) Amount due to cosmetics suppliers	8,000	11,000
(v) Rent paid in advance	1,000	1,500
(vi) Salary outstanding	1,500	2,000
(vii) Value of Equipments	21,500	29,000
(viii) Value of Furniture and Fixtures	40,000	36,000

You are required to prepare Income and Expenditure Account for the year ended 31stMarch ,2006 and Balance Sheet as on date of M/s Tip top Club. Show all working. **(CA-PCC 2006 – Nov [16 Marks)**

Hints : Calculation of subscription :

Subscription received	45,000
Less : Due (Last year)	(500)
Less : Due (Current year)	2,000
Add : Received in advance(Last year)	1,500
Less : Received in advance (Current year)	(1,000)
Subscription of the year	47,000

Calculation of Purchase of Cosmetics :

Cosmetic A/c

Particulars	Rs.	Particulars	Rs.
To Cash	15,000	By Bal . b/d	8,000
To Balance C/d	11,000	By Purchase	(18,000)
	26,000		26,000

Calculation of Consumption of Cosmetics :

Opening Stock	10,000
Add: Purchase	18000
Less: Closing stock	(7,000)
	21,000

4. Calculation of Salaries:

Salary Paid	18,000
Less: Outstanding Salary (Last year)	(1,500)
Add: Outstanding Salary (Current year)	2,000
	18,500

Calculation of Rent :

Rent Paid	12,000
Add: Paid in Advance (Last year)	1,000
Less: Paid in Advance (Current year)	(1,500)
	11,500

Calculation of Operating Capital : Balance Sheet (as on 31.3. 06)

Particulars	Rs.	Particulars	Rs.
Capital	1,21,000	Subscription due	500
Subscription received in advance	1,500	Stock of Cosmetic	10,000
Due to Cosmetic Supplier	8,000	Rent paid in advance	1,000
Salary Outstanding	1 ,500	Investment	50,000
		Equipment	2,500
		Furniture and fixture	40,000
		Cash	9,000
	1,32,000		1,32,000

Question 29: Following is the Receipts and Payments Account of Nanoo Club for the year ended 31st March, 2009:

Receipts	Rs.	Payments	Rs.
Opening Balance:		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000
Bank	3,850	Printing and stationery	70,000
Subscription received	2,02,750	Postage	40,000
Entrance donation	1,00,000	Telephone and fax	52,000
Interest received	58,000	Repairs and maintenance	48,000
Sale of fixed assets	8,000	Glass and table lined	12,000
Miscellaneous income	9,000	Crockery and cutlery	14,000
Receipts at coffee room	10,70,000	Garden upkeep	8,000
Wines and spirits	5,10,000	Membership fees	4,000
Swimming pool	80,000	Insurance	5,000
Tennis court	1,02,000	Electricity	28,000
		Closing balance:	
		Cash	8,000
		Bank	2,24,600
	21,53,600		21,53,600

Following additional information is provided to you:

1. Assets and liabilities as on 1.4.2008 were as follows:

Fixed assets (Net)	5,00,000
Stock	3,80,000
Investment in 12% government securities	5,00,000
Outstanding subscription	12,000
Gratuity fund	1,50,000
Prepaid insurance	1,000
Sundry creditors	1,12,000
Subscription received in advance	15,000
Entrance donation received pending membership	1,00,000

2.Subscription received in advance as on 31.3.09 was Rs. 18,000.
3.Outstanding subscription as on 31.3.09 was Rs. 7,000.
4.Outstanding expenses as on 31.3.09 are:
Salaries : Rs. 8,000
Electricity: Rs. 15,000
5. 50% of the entrance donation was to be capitalised. There was no pending membership as on 31.3.09.
6.The cost of assets sold as on 1.4.08 was Rs. 10,000. Depreciation was provided @ 10% p.a. on fixed assets on written down value basis,
7. A sum of Rs. 20,000 received in October, 2008 as entrance donation from an applicant was to be refunded, as he has not fulfilled the requisite membership qualification. The refund was made on 3.6.09.
8.Purchases made during the year 2008-09 amounted to Rs. 1500,000.
9.The value of closing stock as on 31.3.09 was Rs. 2,10,000.
10.The Club as a matter of policy charges off to Income and Expenditure account, all purchases made on account of crockery, cutlery, glass and linen in the year of purchase.

You are required to prepare:
(i) Income and Expenditure account for the year ended 31st March, 2009.
(ii) Balance Sheet as on 31st March, 2009.

(CA-PCC- MAY 2009)20 MARKS)

Answer: **Income and Expenditure Account of Nanoo club For the year ended 31st March, 2009**

Expenditure	Amount	Income	Amount
To Salaries (W.N.8)	1,28,000	By Subscriptions (W.N.2)	1,94,750
To Printing and stationery.	70,000	By Entrance donation (W.N.3)	90,000
To Postage	40,000	By Interest (W.N.4)	60,000
To Telephone & Fax	52,000	By Miscellaneous income	9,000
To Repairs and maintenance	48,000	By Profit from operations (W.N.6)	92.000
To Glass and table linen	12,000	By Excess of expenditure over income	
To Crockery and cutlery	14,000	transferred to capital fund (deficit)	30,250
To Garden upkeep	8,000		
To Membership fees	4,000		
To Insurance (W.N.5)	6,000		
To Electricity charges (W.N.8)	43,000		
To Loss on sale of assets	2,000		
(10,000-8,000)			
To Depreciation (W.N.9)	49,000		
	4,76,000		4,76,000

Balance sheet of Nanoo Club As on 31st March, 2009

Liabilities	Amount	Assets	Amount
Capital fund (W.N. 10).	10,89,600	Fixed assets (W.N.9)	4,41,000
Gratuity fund	1,50,000	Stock	2,10,000
Sundry creditors (W.N.7)	92,000	Investments in 12% Government securities	5,00.000
Subscription received in advance	18,000	Subscription outstanding	7,000
Entrance donation refundable	20,000	Interest accrued (W.N.4)	2,000
Outstanding salary	8,000	Bank	2,24,600
Outstanding electricity charges	15,000	Cash	8.000
	13,92,600		13,92,600

Working Notes:

(1) Opening Balance Sheet as on 1" April, 2008

Liabilities	Amount	Assets	Amount
Capital funds (Bal. Fig.)	10,29,850	Fixed assets	5,00,000
Sundry creditors	1,12,000	Stock	3,80,000
Subscription received in advance	15,000	Investment in 12% Government securities	5,00,000
Entrance donation received in advance (pending		Subscription outstanding	12,000
membership)	1,00,000	Prepaid insurance	1,000
Gratuity fund	1,50,000	Cash	10,000
		Bank	3,850
	14,06,850		14,06,850

Subscription

Particulars	Amount
Subscription received during the year	2,02,750
Add: Outstanding subscription on 31.3.2009	7.000
Add: Received in advance as on 1.4.2008	15,000
	2,24,750
Less: Outstanding subscription as on 1.4.2008	(12,000)
Less: Received in advance as on 31.3.2009	(18,000)
	1,94,750

Entrance donation

Particulars	Amount
Entrance Donation received during the year	1,00,000
Add: Received in Advance as on 1.4.2008	1,00,000
	2,00,000
Less: Refundable to Ineligible Member	20,000
	1,80,000
Less: 50% Capitalized	90,000
	90,000

Interest Received

Particulars	Amount
Interest on Rs. 5,00,000 @ 12% p.a.	60,000
Less: Interest received during the year	58,000
Interest accrued as on 31.3.2009	2,000

Interest credited to Income and Expenditure A/c	60,000

Insurance

Particulars	Amount
Insurance paid during the year	5,000
Add: Prepaid insurance as on 1.4.2006	1,000
	6,000

Profit from Operations

Particulars	Amount
Cost of Goods sold:	
Opening Stock as on 1.4.2008	3,80,000
Add: Purchases	15,00,000
	18,80,000
Less: Closing Stock	2,10,000
Cost of Goods Sold (A)	16,70,000
Receipts from operations	
Receipts from Coffee Room	10,70,000
Receipts from Wines & Sprits	5,10,000
Receipts from Swimming Pool	80,000
Receipts from Tennis Court	1,02,000
Total of Receipts (B)	17,62,000
Profit from operations (B-A)	92,000

Sundry Creditors

Particulars	Amount
Opening Balance as on 1.4.2008	1,12,000
Add: Purchases made during the year	15,00,000
	16,12,000
Less: Payment made during the year	15,20,000
Closing Balance as on 31.3.2009	92,000

(8) (a) Salary

Salary paid as on 31.3.2009	1,20,000		
Add: Outstanding Salary as on 31.3.2009	8,000	1,28,000	
(b) Electricity charges paid		28,000	
Add: Outstanding Electricity charges as on 31.3.2009		15,000	43,000

(9) Fixed Assets

Fixed Assets as per Trial Balance	5,00,000
Less: W.D.V. of Assets sold	10,000
	4, 90,000
Less: Depreciation @ 10% on Rs. 4,90,000	49,000
Fixed Assets as on 31.3.2009	4,41,000

(10) Capital fund

Capital fund as on 31.3.2008	10, 29,850
Add: Entrance donation capitalized	90,000
	11, 19,850
Less: Deficit	30,250
	10,89,600

Question 30: On the basis of the following information's, prepare Income and Expenditure Account for the year ended 31st March, 2010:

Receipts and Payments Account for the year ended 31st March, 2010

Receipts	**Rs.**	**Payments**	**Rs.**
To Cash in hand (opening)	1,300	By Salaries	2,58,000
To Cash at Bank (opening)	3,850	By Rent	71,500
To Subscriptions	4,94,700	By Printing & Stationery	3,870
To Interest on 8% Govt. Bonds	4,000	By Conveyance	10,600
To Bank Interest	160	By Scooter purchased	50,000
By 8% Govt. Bonds	1, 00,000		
		By Cash in hand (closing)	840
		By Cash at Bank (closing)	9,200
	5,04,010		**5,04.010**

1. Salaries paid include Rs. 6,000 paid in advance for April, 2010. Monthly salaries paid were Rs. 21,000.
2. Outstanding rent on 31st March, 2009 and 31st March, 2010 amounted to Rs.5,500 and Rs. 6,000 respectively,
3. Stock of printing and stationery material on 31st March, 2009 was Rs. 340; it was Rs.365 on 31st March, 2010.
4. Scooter was purchased on 1st October, 2009. Depreciation @ 20% per annum is to be provided on it.
5. Investments were made on 1st April, 2009.
6. Subscriptions due but not received on 31st March, 2009 and 31" March, 2010 totalled Rs. 14,000 and Rs. 12,800 respectively. On 31 March, 2010 subscriptions amounting to Rs. 700 had been received in advance for April, 2010.

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Answer :Income and expenditure Account for the year ended 31st march, 2010

Expenditure	Amount	Income	Amount
To Salaries (W.N. 1)	2,52,000	Subscription (W.N.6)	4,92,800
To Rent(W.N.2)	72,000	Interest on 8% Government bonds	
To Printing and stationery (W.N.3)	3,845	(W.N.5)	8,000
To Conveyance	10,600	Bank interest	160
To Depreciation on Scooter (W.N.4)	5,000		
To Surplus i.e. excess of income over expenditure	1,57,515		
	5,00,960		5,00,960

Working Notes:

1. Salaries paid		2,58,000
Less .Salary paid in advance for April, 2010		6,000
Salaries for the year		2,52,000
2. Rent paid		71,500
Add: Outstanding rent as on 31.3.2010		6,000
		77,500
Less: Outstanding rent as on 31.3.2009		5,500
Rent for the year 2009-2010		72,000
3. Printing and stationery		3,870
Add: Stock as on 31.3.2009		340
		4,210
Less : Stock as on 31.3.2010		365
Printing and stationery consumed during the year 2009-2010		3,845
4. Depreciation on scooter $= Rs.50{,}000 \times \frac{20}{100} \times \frac{6}{12} = Rs.5{,}000$		5,000
5. Interest on Government bonds received		4,000
Add: Interest due but not received as on 31.3.2010		4,000
Interest income for the year 2009-2010		8,000
6. Subscription received		4,94,700
Add: Accrued subscription as on 31.3.2010		12,800
		5,07,500
Less .Accrued subscription as on 31.3.2009	14,000	
Unearned subscription for April, 2010	700	(14,700)
Income for the year 2009-2010		4,92,800

Question: 31. The Young Trust runs a Charitable Hospital and a Dispensary. The following information is available for the year ended 31st March, 2009 from the books of accounts:

	Dr.	Cr
Capital Fund		9,00,000
Donations received during the year		6,00,000
Recovery of the Rent		2,75,000
Fees received from patients		3,00,000
Recovery of Food Supplies		1,40,000
Surgical Equipments	4,55,000	
Building & Operation Theatres	3,20,000	
Consumption in the Hospital of:		
Medicines	1,20,000	
Food Stuff	90,000	
Chemicals	30,000	
Closing Stock of Hospital		

Medicines	20,000	
Food Stuff	4,000	
Chemicals	1,000	
Sales of Medicines (Dispensary)		3,10,000
Opening Stock of Medicines (Dispensary)	55,000	
Purchase of Medicines (Dispensary)	3,00,000	
Salaries:		
Administrative Staff	30,000	
Doctors/Nurses	1,50,000	
Assistant at the Dispensary	15,000	
Electricity & Power Charges:		
Hospital	1,05,000	
Dispensary	2,000	
Furniture &Equipments	80,000	
Ambulance	30,000	
Postage & Telephone Expenses less recovery	26,000	
Subscription to Medical Journals	21,000	
Ambulance Maintenance Charges less recovery	800	
Consumption of Bed Sheets	90,000	
Fixed Deposits made on 01-04-2008 for three years at interest @11%p.a.	5,00,000	
Cash & Bank Balances	41,300	
Sundry Debtors (Dispensary)	60,500	
Sundry Creditors (Dispensary)		41,000
Remuneration to Trustees, Trust Office Expenses etc.	21,000	

Additional Information:

The dispensary supplied medicines to the hospital worth Rs. 60,000, for which no adjustment was made in the books.

The closing stock of the medicines was Rs. 40,000 at the dispensary.

The stock of medicines on 31st March, 2009 at the hospital included Rs. 4,000 worth of medicines belonging to the patients, which has not been considered while arriving at the figure of consumption of medicines.

The donations were received towards Corpus of the Trust.

On 15th August, 2008, surgical equipments were donated having market value of Rs. 40,000.

The hospital is to receive the grant of 25% of the amount spent on treatment of the poor patients from the Red Cross Society. Such expenditure was Rs. 50,000.

Out of the fees recovered from the patients, 10% is to be given to the Specialist retained by the Hospital.

Depreciation on the assets on the closing balances :

Surgical Equipments @ 20%

Building @ 5%

Furniture &Equipments @ 10%

Ambulance @ 30%

You are required to prepare:

Income and Expenditure Account of the Hospital, Dispensary and Trust,

Statement of Affairs of the Trust for the year ended 31st March, 2009.

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Answer: **Income and expenditure Account of Dispensary for the year ended 31st march, 2009)**

Particulars	Amount	Particulars	Amount
To Opening stock of medicines	55,000	By Sales of medicine	3,10,000
To Purchase of medicines	3,00,000	By Supply of medicines to hospital	60,000
To Salaries to assistants	15,000	By Closing stock of medicines	40,000
To Electricity & power charges	2,000		
To Surplus transferred to trust income & expenditure account (Bal.Fig.)	38,000		
	4,10,000		4,10,000

Income & Expenditure Account of Hospital For the year ended 31st March, 2009)

Particulars		Amount	Particulars	Amount
To Consumption of:			By Fees received from patients	3,00,000
Medicines (W.N.1)	1,84,000		By Recovery for rent	1,40,000
Food stuff	90,000		By Recovery of food supplies	2,75,000
Chemicals	30,000	3,04,000	By Ambulance maintenance charges less recovery	800
To Salaries:				
Admn. staff	30,000		By Grant receivable from Red Cross Society (25% of 50.000)	12,500
Doctors & nurses	1.50,000	1,80,000		
To Electricity & power charges		1,05,000	By Deficit transferred to trust income & expenditure account	1,33,700
To Consumption of bed sheets		90,000		
To Subscription to medical journals		21,000		

To Retainership of specialists outstanding (W.N.2)			
To Depreciation on:	30,000		
Surgical equipments 99,000			
Building 16,000			
Furniture & fixtures 8,000			
Ambulance 9,000			
	1,32,000		
	8,62,000		8,62,000

Income & Expenditure Account of the Young Trust For the year ended 31st March, 2009)

Particulars	Amount	Particulars	Amount
To Deficit from hospital	1,33,700	By Surplus from dispensary	38,000
To Postage & telephone expenses less recovery	26,000	By Interest accrued on fixed deposits	55,000
To Remuneration to trustees, trust office expenses etc.	21,000	By Deficit (Excess of expenditure over income)	87,700
	1,80,700		1,80,000

Statement of Affairs of Young Trust As on 31st March, 2009)

Liabilities		Rs.	Assets		Rs.
Capital fund:			Building	3,20,000	
Opening balance	9,00,000		Less: Depreciation	16,000	3,04,000
Add: Donations:			Surgical equipment	4,55,000	
Cash	6,00,000		Add: Donation	40,000	
Surgical equipment	40,000			4,95,000	
	15,40,000		Less: Depreciation	99,000	3,96,000
Less: Deficit	87,700	14,52,300	Furniture	80,000	
Sundry creditors(dispensary)		41,000	Less: Depreciation	8,000	72,000
Outstanding retainership to			Ambulance	30,000	
specialist (W.N.2)		30,000	Less: Depreciation	9,000	21,000
			Stock:		
			Medicines:		
			Dispensary .	40,000	
			Hospital	16,000	
			Food stuff Hospital (20,000 - 4,000)		
			Chemicals	4,000	
			Sundry debtors (Dispensary)	1,000	61,000
			Grant receivable from Red Cross Society		60,500
			fixed deposits		12,500
			Interest accrued		5,00,000
			Cash & bank balance		55,000
					41,300
		15,23,300			15,23,300

Working Notes :

1. Consumption of medicines in hospital:

Medicines	1,20,000
Supplies received from dispensary	60,000
Medicines in stock belonging to patients	4,000
Total	1,84,000

2. Calculation of fee given to specialist:
   10% of Rs. 3, 00,000 = Rs. 30,000

Note: It is assumed that surgical equipment donated on 15th August 2008 was not included in the closing balance of surgical equipments as on 31st March, 2009

Question: 32:The following is the Receipt and Payment Account of Park View Club in respect of the year ended 31st March 2011.

Receipts		**Amount**	**Payment**	**Amount**
To Balance b/d		1,02,500	By Salaries	2,08,000
To subscriptions:			By Stationery	40,000
2008-09	4,500		By Rent	60,000
2009-10	2,11,000		By Telephone Exp.	10,000
2010-11	7,500	2,23,000	By Investment	1,25,000
To profit on sports meet		1,55,000	By Sundry Expenses	92,500
To Income from investments		1,00,000	By Balance c/d	45,000
		5,80,500		5,80,500

Additional information:

1.There are 450 members each paying an annual subscription of ? 500. On 1SI April, 2010, outstanding subscription was Rs. 5,000.
2. There was an outstanding telephone bill for Rs. 3,500 on 31st March, 2011.
3. Outstanding sundry expenses as on 31s1 March, 2010 totalled Rs. 7,000.
4. Stock of stationery:
   On 31st March, 2010 Rs. 5,000
   On 31st March, 2011 Rs. 9,000
5. On 31st March, 2010 building stood in the books at Rs. 10, 00,000 and it was subject to depreciation @ 5% per annum.
6. Investment on 31st March, 2010 stood at Rs. 20, 00,000.
7. On 31st March, 2011, income accrued on the investments purchased during the year amounted to Rs. 3,750.

Prepare an Income and Expenditure Account for the year ended 31st March, 2011 and the Balance Sheet as at that date.

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Answer:

Income and Expenditure A/c

Expenditure	Amount	Income	Amount
To Salaries	2,08,000	By Subscriptions (W.N.2)	2,25,000
To Stationery consumed (W.N.3)	36,000	By Profit on sports meet	1,55,000
To Rent	60,000	By Income on investments 1,00,000	
To Telephone expenses 10,000		Add: Income accrued 3,750	1,03,750
Add: Outstanding on 31.311 3,500	13,500		
To Sundry expenses 92,500			
Less: Outstanding on 31.3.10 (7,000)	85,500		
To Depreciation of building	50,000		
To Surplus (excess of income over expenditure)	30,750		
	4,83,750		4,83,750

Balance Sheet as at 31st March 2011

Liabilities	Amount	Assets	Amount
Capital fund (W.N. 1) 31,05,500		Outstanding subscriptions	14,500
Add: Surplus 30,750	31,36,250	Investment	
Subscriptions received in advance	7,500	(20,00,000 + 1,25,000) 21,25,000	
Outstanding telephone bills	3,500	Add: Interest accrued on	
		investments 3,750	21,28,750
		Building 10,00,000	
		Less: Depreciation (50,000)	9,50,000
		Stock of stationery	9,000
		Cash balance	45,000
	31,47,250		31,47,250

Working Notes:

Balance Sheet as at 31st March 2010

Liabilities	Amount	Assets	Amount
Outstanding sundry expenses	7,000	Building	10,00,000
Capital fund (Bal.fig)	31,05,500	Investments	20,00,000
		Stock of stationery	5,000
		Cash balance	1,02,500
		Outstanding subscriptions	5,000
	31,12,500		31,12,500

Calculation of subscriptions accrued during the year subscription A/c

Particulars	Amount	Particulars	Amount
To Outstanding Subscriptions (as on 1.4.10)	5,000	By Cash A/c	2,23,000
To Income & Expenditure A/c	2,25,000	By Outstanding subscriptions (as on 31.3.11) (Bal. fig)	14,500
To Subscriptions received in advance for 2011-12	7,500		
	2,37,500		2,37,500

Question 33:Bear Bar Club was registered in a city and the accountant prepared the following Receipts and Payments Account for the year ended March 31, 2011 and showed a deficit of Rs. 14,520.

Receipts	Amount	Payments	Amount
Subscriptions	62,130	Premises	30,000
Fair receipts	7,200	Honorarium to Secretary	12,000
Variety show receipts (net)	12,810	Rent	2,400
Interest	690	Rate & Taxes	3,780
Bar Collection	22,350	Printing & Stationary	1,410
Excess Cash spent	1,000	Sundry Expenses	5,350
Deficit	14,520	Wages	2,520
		Fair Expenses	7,170
		Bar purchases payments	17,310
		Repair	960
		New car (less proceeds of old car Rs. 9,000)	37,800
	1,20,700		1,20,700

The following additional information are:

	01.04.2010	31.03.2011
Cash in hand	450	.....
Bank balances as per pass book	24,690	10,440
Cheque issued not presented for sundry expenses	270	90
Subscriptions due	3,600	2,940
Premises at cost	87,000	1,17,000
Accumulated depreciation on premises	56,400	.....
Car at cost	36,570	46,800
Accumulated depreciation on car	30,870	.....
Bar stock	2,130	2,610
Creditors for the bar purchases	1,770	1,290

Cash excess spent represent honorarium to secretary not withdrawn due to cash deficit.
His annual honorarium is Rs. 12,000.
Depreciation on premises and car is to be provided at 5% and 20% on written down value method.
You are required to prepare the correct Receipts and Payments Account, Income and Expenditure Account and Balance Sheet on March 31, 2011.

(CA-IPCC- Nov 2011)16 MARKS

CHAPTER 10A. INTRODUCTION TO COMPANY ACCOUNTS

NOTES NOT REQUIRED. JUST WATCH VIDEO LECTURES. EVEN I AM REFERING ANY BOOK. JUST LISTEN CAREFULLY AND UNDERSTAND THE CONCEPT. THEORY OF THIS CHAPTER HAS BEEN COVERED IN "ISSUE OF SHARES"

CHAPTER 10 B. ISSUE,FORFEITURE AND RE-ISSUE OF SHARES

IMPORTANT THEORY

- The word 'company' is derived from the Latin word 'com' i.e. with or together and 'panis' i.e. bread.
- According to Justice Marshal " A corporation is an artificial being invisible, intangible and existing only in the contemplation of law"
- According to Lord Justice Hanay a company is "an artificial person created by law with a perpetual succession and a common seal"
- Under the company act 2013, the term company is defined in section 2(20)

SALIENT FEATURES OF A COMPANY :-

1. **Incorporated association—** A company comes into operation after its registration under Companies Act. Without such registration no company can come into existence.
2. **Separate legal entity –** A company has a separate legal entity and is not affected by changes in its membership. Therefore, being a separate business entity, a company can contract, sue and be sued in its incorporated name and capacity.
3. **perpetual existence –** Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.
4. **common seal—**Company is not a natural person, therefore, it can not sign the document in the manner as a natural person would do. In order to enable the company to sign its documents it is provided with legal tool called 'common seal'.
5. **Limited liability---** The liability of every shareholder of a company is limited to the amount he has agreed to pay to the company on the shares allotted to him.
6. **Distinction between ownership and management:**-- Since the number of shareholders is very large and may be distributed at different geographical locations, it becomes difficult for them to carry on the operational management of the company on day to day basis. This gives rise to the need of separation of the management and ownership.
7. **Not a citizen—**A company is not a citizen in the same sense as a natural person is.
8. **Transferability of shares**:- The capital is contributed by the shareholders through the subscription of shares. Such shares are transferable by its members except in case of a private limited company, which may have certain restrictions on such transferability.
9. **Maintenance of books**--- A limited company is required by law to keep a prescribed set of account books and any failure in this regard attract penalty.
10. **Periodic audit** --- a company has to get its accounts periodically audited through the chartered accountant appointed **by the shareholders** in their **Annual General Meeting** on the recommendation of **Board of Directors**.
11. **Right of access to information**:-- The right of the shareholders of a company to inspect its books of accounts is governed by article of association.

TYPES OF COMPANIES

1. STATUTORY COMPANY:- All those companies, which operate under the special act passed by the State Legislature or Parliament, are called statutory companies. They are formed for special purpose by a special Act of Parliament. Included in this category are the unit Trust of India, Life Insurance Corporation, Reserve Bank of India, State Bank of India and so on. **Such companies are not required to use the word 'limited' as part of their name**. For example, Reserve Bank of India. Such companies are required to get their accounts audited by Comptroller and Auditor General of India and are publicly accountable to the State Legislature/Parliament.

2. GOVERNMENT COMPANY:- According to **Section 2(45) of The Companies Act, 2013** "a Government company means any company in which not less than 51% of the paid-up capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments and includes a company which is a subsidiary of a government Company".

3. FOREIGN COMPANY:- According to **Section 2(42) of The Companies Act, 2013** "A foreign company is one that is incorporated outside India but has place of business or business operations in India.

4. HOLDING COMPANY:- **Under Section 2(46)** of The Companies Act, 2013, a company is deemed to be a holding company if the other company is its subsidiary company. A company becomes a subsidiary company when other company controls 51% or more of its paid-up share capital, has right to appoint directors on its board, or is a subsidiary of another subsidiary company.

5. SUBSIDIARY COMPANY:- **According to Section 2(87),** a company is deemed to be a subsidiary of another company if and only if -

(a) That other company controls the composition of its board of directors, it implies that the controlling company (holding company) has the right to exercise the power of appointing or removing any person or a majority of persons from the directorship at its own discretion; or

(b) That other company holds more than half in its nominal value of its equity share capital; or

(c) That other company is a subsidiary of any company, which is that other's subsidiary. For example, Company B is a subsidiary of Company A, and Company C is a subsidiary of Company B. Since, Company B is a subsidiary of Company A, Company C becomes the subsidiary of Company A as well.

(d) In case of a body corporate which is incorporated in a country outside India, a subsidiary or holding company of the body corporate under the law of such country shall be deemed to be a subsidiary or holding company within the meaning and for the purpose of this ad whether the requirements of this section are fulfilled or not. It implies that if a company operating in India is a subsidiary of a foreign company, it will be treated as such irrespective of the fact whether in India, if it fulfills conditions (a), (b) and (c) listed above or no.

6. REGISTERED COMPANY:- All those companies that are registered under The Companies Act, 2013, are called Registered Companies.

7. LIMITED LIABILITY COMPANY

(a) LIMITED BY SHARES:--According to Section 2(22) of The Companies Act, 2013 " A company in which the liability of shareholders is restricted to the amount of unpaid calls on shares is known as limited company.

(b) LIMITED BY GUARANTEE:--According to Section 2(21) of The Companies Act, 2013 " A company in which the liability of shareholders is restricted to the amount of Guarantee given is called limited by guarantee.

8. UNLIMITED LIABILITY COMPANY:- According to **Section 2(92) of The Companies Act, 2013** A company in which the liability of shareholders is not restricted only to the value unpaid of shares is known as unlimited company

9. PUBLIC COMPANY:- According to Section 2(71) of the Act, 'public company' means a company which (a) is not a private company; (b) has a minimum paid-up capital as may be prescribed; and (c) is a private company which is a subsidiary of a company which is not a private« company. After Companies (Amendment) Act, 2000, a public company cannot be registered with a capital of less than Rs. 5 lakhs. Public companies invite the public at large to participate and subscribe for the shares in, or debentures of, the company and there are no restrictions on transfer of shares.

10. PRIVATE COMPANY:- **According to Section 2(68),** a private company means a company which has a minimum paid-up capital as may be prescribed, and by its articles:

(a) Restricts the rights of members to transfer its shares.

(b) Except in one person company, limits the number of its member to 200 excluding: (i) persons who are in employment of the company; and (ii) persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased. For this purpose joint holders of shares will be counted as single members.

(c) Prohibits any invitation to the public to subscribe to any shares in, or debentures of, the company.

(d) Prohibits any invitation or acceptance of deposits from persons other than its member, directors, and relatives. Private companies do not involve participation of public in general.

11. LISTED COMPANY:- A listed company is a public company which has any of its securities listed in any recognized stock exchange.

12. UNLISTED COMPANY:- An unlisted company is one whose securities are not listed on any recognized stock exchange for trading.

13.One person company -- According to **Section 2(62) of The Companies Act, 2013,** a company which has only one person as member is called one person company.

Important Note: ***In the case of private companies shares are not listed in any stock exchange.***

MEANING OF SHARES: In case of sole proprietorship and partnership there is limit of capital investment in business since in sole proprietor there is only one owner and in case of partnership, there also number of owners are limited. So where there is more capital required or nature of project is very big and that requires huge capital, those requirement demands companies form of organization in which capital is big and number of owners are not limited. According to section **2(84)** of the companies act 2013, share means a share in the share capital of a company and includes stock.

SHARE CAPITAL:-Total share capital of company is divided into number of small indivisible units of a fixed amount and **each unit is called share**. The fixed value of share printed on the share certificates called Nominal/ Par/ Face value of share. However company can issue share at a price different from face value of share i.e. at discount or premium. E.g. Share having face value Rs 100 can be issued at Rs 50/- premium on one share, so here issue price is Rs 150.The liability of holder of shares (called shareholders) is limited to **issue price of share acquired by them.** According to SEBI guidelines, a company is free to price its issue if it has **three years track record** of consistent profitability and in case of New Company, if it has been promoted by company with a **five years tracks record** of consistent profitability. Since total capital of company is divided into shares, the capital of the company is called share capital. Document used to invite offer from public to subscribe share and debenture of company is called **prospectus**.

Share capital of company divided into following categories:-

1. Authorized share capital (section 2(8) :- This capital also called Registered Capital or Nominal Capital.
This is maximum capital requirement of company and mentioned in 'capital clause' of the 'Memorandum of Association' registered with Registrar of Company. This is maximum limit which a company can raise by issue of share capital during its life time. It is shown on liabilities side of Balance Sheet at Face Value.

2. Issued Share Capital(section 2(50) :- It is that part of Authorized Capital which company uses to raise fund since it is not necessary that all Authorized Capital should be issued. The remaining portion of the authorized capital which is not issued is called **un-issued capital**. It is not shown in Balance Sheet.

3. Subscribed Share Capital (section 2(86) :- That part of issued share capital which has been subscribed by the public is called subscribed share capital. Subscribed share capital may be more, less or equal to issued share capital. **At least 90%** of the issued share capital must be subscribed by the public before the allotment of shares.

4. Called-up Share Capital (section 2(15) :- Companies generally receive the issue price of share in installments. Called-up Capital is that portion of issue price of share which a company has demanded and called from shareholder. The portion of issue price which is not called or demanded by company **is termed as uncalled capital.**

5. Paid-up Share Capital (section 2(64) :- Paid-up capital is that portion of Called-up Capital which is paid by shareholder. The portion of called up capital which is not paid by shareholders are called unpaid calls or Installment in Arrears or Calls in Arrears. To calculate paid-up share capital, Calls in Arrear is deducted from Called- up Capital in the balance sheet. Called-up Capital and Paid-up capital are shown together at liabilities side of balance sheet. **Dividend are paid on Paid -up Capital**

6. Reserve Share capital :- According to section 65 of Company Act 2013, a company may decide by passing special resolution that some portion of subscribed uncalled capital shall not be called up except in the event of winding- up of Company. Portion of uncalled capital which a company has decided to call only in case of liquidation of company is called Reserve Liability / Reserve Capital.

7. Capital Reserves:- Capital Reserves are created out of Capital Profits. These are not free for distribution as dividend. This Reserve can be used to write off capital losses such as discount on issue of shares, underwriting commission etc. This Reserve can also be used to issue Bonus Shares if they have been realized in cash. Capital reserves are part of Reserves and surplus and shown under the head 'Reserves and surplus' in the balance sheet.

TYPES OF SHARES: These are two type of shares

1. Preference Shares:-Those shareholder which have preferential right in following matter

a. They get assured preferential dividend at fixed rate during the life of company.
b. They are having preferential right to be paid first in case of winding up of company, from other shareholders.

According to section 43 of companies Act 2013, person holding preference shares are called preference shareholders. However, Holder of preference share does not have voting rights.
The company Act 2013, prohibits the issue of preference share which is irredeemable. Preference shares are cumulative and Non-participating unless otherwise stated. According to Company Act, preference shares which are redeemable within 20 years can only be issued.
Types of Preference Shares.: These are following type:-

a. Cumulative Preference Shares
- A cumulative preference share is one that carries the right to a fixed amount of dividend every year. If current year profit is insufficient, it is paid from future profit. So dividend is accumulated unless it is paid in full and such shares are called Cumulative Preference Share.
- The arrears of dividend are shown in balance Sheet as 'Contingent Liabilities'.
- In India 'Preference shares' are always cumulative unless otherwise stated.
- If dividends are in arrears for a period not less than two year, holders of such shares will be entitled to take part and vote on every resolution in general body meeting of shareholders.

b. Non-Cumulative Preference Shares
- These are those shares which do not carry right to get divided accumulated or carry forward if profit of current year are insufficient. In other words we can say if company cannot pay dividend in one year then right of shareholder to receive dividend in future period expires.
- **If dividend remains arrears for a period not less than two years or an aggregate periods of not less than three years comprised in six years ending with the expiring of financial year, holder of such shares will be entitled to take part and vote on every resolution at any meeting of shareholders.**

c. Participating Preference shares :--These shareholders have following rights
- Right to get fixed percentage of dividend.
- Right to participate on stipulated profit after equity shareholders have been paid at stipulated rate.
- In case of winding up of company, these shareholder also get right to receive pre-determined portion of surplus after equity shareholders have been paid off.

d. **Non participating preference Share:-** These shareholders only get fixed percentage of dividend every year. They don't have right to participate in profit and surplus in case of winding-up of company.

e. Redeemable Preference Shares.: These are shares that company may issue on the condition that company will repay after the fixed period or even earlier at company discretion. It is governed by section 55 of the companies Act 2013.

f. Non-Redeemable Preference shares:- Those shares which are not redeemable are called non redeemable preference shares. According to section 55, no company limited by shares shall issue irredeemable preference share or preference shares redeemable after expiry of 20 years from the date of issue.

g. Convertible Preference Shares:- These shareholder have right to convert their shares into equity shares at their option according to terms and conditions of their issue.

h. Non-Convertible preference Shares : These shareholders do not have right to convert their shares into equity shares.

2 **Equity Shares(section 43(a) :-**These are those shares which are not Preference Share. They don't have preferential right in matter of dividend or repayment of capital. On Equity shares dividend is recommended by Board of Directors and dividend may vary from year to year.These shareholders carry voting right in general meeting of shareholders. Company (Amendment) Act 2000, permit issue of equity share capital with differential right as to dividend, voting or otherwise.

3 **SHARES Issued of for cash :-** To Issue shares, private companies raise funds from private placement of shares. Public companies for raising funds issue prospectus and invite general public to subscribe for its shares. On basis of prospectus, applications are deposited in scheduled bank by interested parties along with amount payable at the time of application. First installment along with application is called application money. As per section 39 of the co act 2013, application money cannot be less than **5% of face value of shares.**

- **SEBI Guidelines** require the shares issued are made fully paid-up **within 12 months** of the date of allotment if the size of the issue is **up to 500 crores**.
- **As per SEBI Guidelines,** the minimum application money to be paid by an applicant along with the application **shall not be less than 25% of the issue price.**

IMP. NOTE -- matters related to issue and transfer of securities will be administered by the SEBI and not by the Company Law Board(CLB)

- According to company Act 2013, a company can not proceed to allot shares unless minimum subscription is received by company.
- Share application money is converted into share capital after board of director approved for allotment of shares.

Minimum Subscriptions :- A public limited company cannot make any allotment of shares unless the amount of minimum subscription stated in prospectus has been subscribed. Amount of minimum subscription to be disclosed in prosecutes by Board o f Director taking into account following

1. Preliminary expenses of company
2. Commission payable on issue of shares.
3. cost of fixed assets purchased or to be purchased
4. Working capital requirement of company.
5. Any other expenditure for day to day operation of business.

- According to guidelines of Securities Exchange Board of India(SEBI) a company **must receive a minimum 90% subscription** against whole issue before making any allotment of shares or debenture to public
- If company is not able to receive minimum subscription of 90% of the issue, the entire subscription shall be refunded to applicants within 15 days from closures of issue.
- In case of delayed refund interest for the delayed period as per section 73 of companies Act shall be payable @ 4% to 15%(having regard to the length of the period in delay) on the amount of refund.
- The companies Act 2013 requires that the period of at least one month must be between two calls.
- The company has right to reject or accept an application fully or partially.

Subscriptions of Shares:- When ever company issues shares it is not necessary that all shares issued by company are also subscribed by public. There are three situation of subscription by public

1. Full subscription
2. Under subscription
3. over subscription

Full subscription:- In this situation number of shares offered for subscription and the number of shares actually subscribed by public are same.

Under Subscription:- In this situation number of shares offered for subscriptions is more than number of shares subscribed by public.

Over subscriptions :- In this situation number of shares offered for subscription is less than number of shares subscribed by public.

Shares issued at Discount(Section 53):- As per new section 53 of the co. act 2013, no shares can be issued at discount(except ESOP and Sweat equity shares)

Shares Issued at Premium(section 52):- It is that situation where company issue share more than its have clue nominal value / face value. This extra amount is called share premium. Example, where face value of company is Rs. 100 and company issue it at Rs. 200, here Rs 100 is share premium

Treatment of security Premium:- Amount of security premium is credited to separate account called security premium account**.** It is not part of capital. It is shown on liabilities side of balance sheet under the sub-head reserve and surplus(Heading shareholder'fund). **According to section 52 of company Act 2013, security premium may be used by company for the following purpose**

a) For issuing Bonus shares
b) To write off preliminary expenses of company
c) To write off expenses, commission, and discount allowed on any securities and debenture of company.
d) To pay premium on redemption of preface share or debenture of company

Over Subscription and pro- rata Allotment:- When shares are over subscribed, it is not possible for company to satisfy all the applicants. Allotment of shares is done at the discretion of company. Allotment basis can be any one of the following:-
(a)Company may allot full shares to some and reject others.
(b) Allotment of shares on Pro-rata basis.

Pro-rata Allotment:- Means allotment of shares in proportion of shares applied for. Applicants are informed about allotment procedure through an advertisement in leading newspapers.

Calls –in Arrears: Sometimes share holders fail to pay the amount due on allotment or calls. The total unpaid amount on one or more installments is known as call-in-arrear or unpaid calls. Such amount represents uncollected amount of capital from shareholders. Call-in-arrear is deducted from called-up capital to reach at paid-up value of share capital. Generally Articles of Association empower the directors to charge interest at stipulated rate on call-in-arrear. However, according to **Table F** of articles of association, Interest at the rate of 10% per annum is charged on unpaid calls for the period started from the due date and end on when actual payment is made. However, directors have authority to waive the application of this rule in individual cases at their discretion.

Call-in Advance:- Sometime, shareholders pay in advance for calls which have not been made. This amount may be with application money, allotment money, first call etc. Calls in advance is shown as a separate item on the liability side of the balance sheet under the head 'other current liability'**.** As per **table F** of articles of association, INTEREST on calls in advance is paid @ 12% p.a.

Forfeiture of shares:- The Article of a company usually authorize the directors to forfeit shares of a member on account of non-payment of a call or interest thereon after serving him a prior notice as prescribed by the articles. Premium money received is never forfeited.

Re-issue of forfeited shares:- Forfeited shares can be re-issued at any price so long as the total amount received (from the original allottee and the second purchaser) for those shares is not less than the amount in arrears on those shares. Loss on re-issue can not exceed the forfeited amount. If the loss on re-issue is less than the forfeited amount, the surplus should be transferred to capital reserve. The forfeited amount on shares not yet re-issued should be shown in the balance sheet as an addition to the share capital. When the shares are re-issued at loss then such loss is debited to 'Forfeited shares account'. If the shares are re-issued at a price which is more than the face value of the shares, the excess amount will be credited to 'securities premium account'. When shares originally issued at a discount are re-issued at a loss, the loss to the extent of original discount is debited to Discount on issue of shares Account and the balance loss is debited to forfeited shares Account.

ISSUE OF SHARES FOR CONSIDERATION OTHER THAN CASH:- A company may issue shares in a direct exchange for land, building or other assets. Shares may also be issued in payment for services rendered by promoters, lawyers in the formation of the company. In the balance sheet, these shares should be shown separately. Within one month of allotment, the company must provide before the registration.

CONCEPT BASED QUESTIONS

Question1. X ltd issued 20,000 shares of Rs 10 each payable as follow:
On application Rs 2
On allotment Rs 3
On first call Rs 4
On final call Rs 1
Public applied for 20,000 shares (Mr A for 12,000 shares and Mr B for 8,000 shares). Money dues on various calls were received except Mr A who failed to pay both calls money. Thereafter his shares were forfeited. These shares were reissued at Rs 7 as fully paid up. Make entries.

Question 2. COC ltd issued 25,000 shares of Rs 10 each payable as follow:
On application Rs 2
On allotment Rs 4
On first call Rs 3
On final call Rs 1
Public applied for 30
,000 shares (Mr A for 18,000 and Mr B for 12,000 shares) and allotment was made pro-rata to both applicants. Money dues on various calls were received except Mr A who failed to pay both calls money. His shares were forfeited and reissued at Rs 9 as fully paid up. Make entries.

Question 3. Tata ltd**.** issued 40,000 shares of Rs 10 each payable as follow:
On application Rs 2
On allotment Rs 3
On first call Rs 2
On final call Rs 3
Public applied for 50,000 shares and allotment was made to all applicants on pro-rata basis. Money dues on various calls were received except Mr Ramesh to whom 2000 shares were allotted failed to pay allotment and first call money. Subsequently his shares were forfeited. Thereafter final call was made and Mr Rajan to whom 1000 shares were allotted failed to pay final call money. His shares were also forfeited. All these forfeited shares were reissued at Rs 8 as fully paid up. Make journal entries.

Question 4. Hudco ltd. issued 25,000 shares of Rs 10 each at a premium of Rs 2 per share payable as follows:
On application Rs 2
On allotment Rs 5(including premium)
On first call Rs 4
On final call Rs 1
Public applied for 32,000 shares and allotment was made to applicants for 30,000shares on pro rata basis. Remaining applications were rejected.
Money dues on various calls were received except Mr karan to whom 2400 shares were allotted failed to pay allotment and first call money. Subsequently his shares were forfeited. Thereafter final call was made and Mr B to whom 1200 shares were allotted failed to pay final calls money. His shares were also forfeited. These shares were re-issued at Rs 8 as fully paid up. Make entries.

Question 5. Maruti ltd issued 40,000 shares of Rs 10 each at a premium of 20% payable as follow:
Application Rs 3(including premium Re 1)
Allotment Rs 4(including premium Re 1)
First call Rs 3
Final call Rs 2
Public applied for 50,000 shares and allotment was made on pro-rata basis to all applicants. Mr Raju to whom 4,000 shares were allotted failed to pay allotment and first call money. Subsequently his shares were forfeited. Mr Kaju to

whom 6,000 shares were allotted failed to pay both calls money. His shares were also forfeited after the final call. Out of forfeited shares 7,000 shares were re-issued at Rs 8 as fully paid. It includes all the shares of Mr Kaju. Make entries.

QUESTION 6. Umesh Ltd. issued 2,00,000 equity shares of Rs. 10 each at a premium of Re. 1 per share (to be adjusted on allotment) payable as follows (i) Rs.2 on application; (ii) Rs. 3 on allotment and (iii) Rs. 4 on first call. Subscription list was closed on 1 January 2004 by which date applications for 4,50,000 shares had been received. Allotment was made as under :

List A : Applicants for 50,000 shares were allotted in full.
List B : Applicants for 1,00,000 shares were allotted 50,000 shares on pro-rata basis
List C : Applicants for 3,00,000 shares were allotted 1,00,000 shares on *pro-rata* basis. Excess application money was adjusted towards allotment and calls authorised by articles of association.
All the shareholders paid the amounts due on allotment and call except Aashima who was allotted 4,000 shares under List B and Swati who was allotted 2,000 shares under List C. These shares were duly forfeited. Of these, 5,000 shares (including 4,000 shares of Aashima) were reissued @ Rs. 7 per share. Journalize the transactions including the cash and show the balance sheet with relevant information only.

QUESTION 7. (Issue of shares to vendors and promoters) Doaba limited company has an authorised capital of Rs. 2,50,000 divided into 25,000 shares of Rs. 10 each. Of these 4,000 shares were issued to the vendors as fully paid for purchase of building 8,000 shares were subscribed for by the public and during the first year, Rs. 2 per share were paid on application, Rs. 2 per share on allotment and Re. 1 per share on call. 2,000 shares were issued as fully paid to promoters. Of the 8,000 shares subscribed for by the public, these had been paid at the end of the first year as under:
On 6,000 shares the full amount called up.
On 750 shares Rs. 4 per share (application and allotment money)
On 1,250 shares Rs. 2 share (application money only)
Company forfeited those shares on which less than 4 have been received.
You are required to submit journal and cash book entries recording the share capital transactions of the company.

Q UESTION 8. (Calls-in-arrears and calls-in-advance) Aashima Ltd. issued 2,00,000 equity shares of Rs. 10 each, payable in equal amounts on application, allotment and the two calls. Applications were received for 2,50,000 shares. One applicant to whom 1,000 shares were allotted paid in full while remitting the allotment money and another shareholder who was allotted 1,200 shares failed to pay the final call. The remaining shareholders paid the amount due as and when called upon to pay. The following information is also relevant: (i) The company allotted the shares to applicants as per SEBI guidelines, (ii) The first call was made 4 months after the allotment date and the final call made 6 months after the first call, (iii) The company received the calls-in-arrears on 1,200 shares 4 months after the final call became due with interest on calls-in-arrears. Assuming that the company allotted only the shares offered for subscription, pass journal entries. The company paid the interest due from it on the date for final call in cash. Table F is applicable whenever needed.

QUESTION 9. (Share application and allotment account) Parul Construction Ltd. made an issue of 30,000 shares of Rs. 10 each payable Rs. 3 on application, Rs. 5 on allotment and Rs. 2 on call. 93,200 shares were applied for and owing to this heavy over-subscription, allotments were made as follows:
(i) Applicants for 21,500 shares (in respect of applications for 2,000 or more) received 10,200 shares,
(ii) Applicants for 50,600 shares (in respect of applications for 1,000 or more but less than 2,000) received 12,600 shares,
(iii) Applicants for 21,100 shares (in respect of applications for less than, 1,000) received 7,200 shares. Cash then received after satisfying amount due on applications was applied towards allotment an*d* call money and any balance then was returned. All moneys due on allotment and call were realized.
Give journal entries including that of cash and write up the cash account and ledger accounts relating to this issue of shares in the books of company**. (CA FOUNDATION 16 MARKS)**

Q UESTION 10 (Issue of securities at premium) Kavita Garments Ltd. with an authorised capital of Rs. 30,00,000 invited applications for 20,000 shares of Rs. 100 each payable Rs. 30 on application, Rs. 40 on allotment (including premium) and Rs. 40 on final call. The issue was oversubscribed and applications were received for 36,000 shares. The basis of

allotment was as follows:

(i) To applicants for 15,000 shares 15,000 shares

(ii) To applicants for 2,500 shares Nil

(iii) To applicants for 18,500 share 5,000 shares

Excess application money was adjusted against the sums due on allotment and call in compliance with the provisions of the Companies Act 2013. All the moneys were duly received except the final call on 1,050 shares from the applicants belonging to full allotment category. Underwriting commission, amounted to Rs. 30,000. Give journal entries to record above transactions and show the company's balance sheet with relevant information only.

Solution:

Date	Particulars		Debit Rs.	Credit Rs.
(i)	Bank Account	Dr.	10,80,000	
	To Share Application Account			10,80,000
(ii)	Share Application Account	Dr.	10,80,000	
	To Equity Share Capital Account			6,00,000
	To Share Allotment Account			2,00,000
	To Calls-in-Advance Account			2,00,000
	To Bank Account			80,000
(iii)	Share Allotment Account	Dr.	8,00,000	
	To Equity Share Capital Account			6,00,000
	To Securities Premium Account			2,00,000
(iv)	Bank Account	Dr.	6,00,000	
	To Share Allotment Account			6,00,000
(v)	Share First and Final Call Account	Dr.	8,00,000	
	To Equity Share Capital Account			8,00,000
(vi)	Bank Account	Dr.	5,58,000	
	Calls-in-Advance Account	Dr.	2,00,000	
	To Share First and Final Call Account			7,58,000
(vii)	Underwriting Commission	Dr.	30,000	
	To Bank Account			30,000
	(Payment of underwriting commission)			

QUESTION 11. (Profit on reissue transferred to capital reserve) Nivedita Limited issued 1,00,000 shares of Rs. 10, each payable as under :

On Application : Rs. 1
On Allotment Rs. 2
On First Call : Rs. 3
On Final Call : Rs. 4

All moneys payable on application, allotment and calls has been received with the following exceptions: **Patel** who holds 1,000 shares has not paid the money due on allotment and calls. **Asha** who holds 500 shares has not paid the money due on the first and final calls. **Kumar** who holds 300 shares has not paid the due on the final call. The shares of Patel, Asha and Kumar were, therefore, forfeited. These shares were subsequently reissued for cash at a discount of 5 per cent Pass journal entries recording the above transactions from the stage of receipt of application money till the reissue of forfeited shares.

Solution:

		Rs.	Rs.
(i)	Bank Account Dr. To Share Application Account Receipt of application money on 1,00,000 shares @ Re. 1 per share)	1,00,000	1,00,000
(ii)	Share Application Account Dr. Share Allotment Account Dr. To Equity Share Capital Account (Application money @ Re. 1 received and allotment money @ Rs. 2 due on 1,00,000 shares transferred to share capital account as per resolution no....dated...)	1,00,000 2,00,000	3,00,000
(iii)	Bank Account Dr. To Share Allotment Account (Allotment money @ Rs. 2 received on 99,000 shares)	1,98,000	1,98,000
(iv)	Share First Call Account Dr. To Equity Share Capital Account (First call money @ Rs. 3 due on 1,00,000 shares *vide* resolution no....dated,.)	3,00,000	3,00,000
(v)	Bank account Dr. To share first call account (First call money received on 98,500 shares @ Rs. 3 per share)	2,95,500	2,95,500
(vi)	Share second and Final call A/c Dr. To equity share capital account (Second cal due on 1,00,000 shares @ Rs. 4 per share vide resolution no…dated)	4,00,000	4,00,000
(vii)	Bank Account Dr. To share second and final Call account (Final call money @ Rs. 4 per share received on 98,200 shares)	3,92,800	3,92,800
(viii)	Share capital account (1,800 x Rs. 10) Dr. To share forfeited Account **(1,000 + x Re. 1) + (500 x Rs. 3) + (300 Rs. 6)** To share allotment account (1,000 x Rs. 2) To share first call account (1,500 x Rs. 3) To share second and final call Account (1,800 x Rs. 4) (forfeited of shares for non-payment of instalments)	18,000	4,300 2,000 4,500 7,200
(ix)	Bank account (1,800 x Rs. 9.50) Dr. Share forfeited Account (1,800 x Re. 0.50) Dr. To equity share capital account (Reissue of forfeited shares at Rs. 9.50 per share)	17,100 900	18,000
(x)	Share forfeited Account Dr. To capital Reserve Account (transfer of the credit balance in the share forfeited account to the capital reserve account, being the profit on reissue)	3,400	3,400

QUESTION 12. (Forfeiture and reissue) Malik Limited has a subscribed capital of 2,000 equity shares of Rs. 25 each, Rs. 20 per share called up. The directors forfeited 200 equity shares held by a shareholder who had failed to pay the first call made @Rs. 10 per share. Later the directors reissued these forfeited shares at Rs. 20per share paid up at Rs. 15 per share. Pass the journal entries for forfeiture and reissue of share. **[CA(Foundation) november 1999]**

Solution:

Date	Particulars	Debit	Credit
(i)		Rs.	Rs.
	Equity Share Capital Account Dr.	4,000	
	To Share Forfeited Account		2,000
	To Calls-in-Arrears Account		2,000
	(Forfeiture of 200 equity shares, Rs. 20 per share called up for non-payment of first call @ Rs*.10 per share)		
(ii)	Bank Account Dr.	3,000	
	Share Forfeited Account Dr.	1,000	
	To Equity Share Capital Account		4,000
	(Reissue of 200 equity shares as Rs. 20 per share paid up @ Rs. 15 per share)	1,000	
(iii)	Share Forfeited Account Dr.		1,000
	To Capital Reserve Account		
	(Transfer of balance of share forfeited account to capital reserve account)		

QUESTION 13 (Forfeiture and reissue of forfeited shares only) Give journal entries to record the forfeiture of shares and their reissue:

1. The directors of A Ltd. forfeited 500 shares of Rs. 50 each, Rs. 40 being called up, on which Radha, a shareholder paid application and allotment moneys of Rs. 25 per share but did not pay first call money of Rs. 15 per share. Of these forfeited shares, the company subsequently reissued 350 shares as fully paid up for Rs. 40 per share.
2. B Ltd. forfeited 100 shares of Rs. 50 each, Rs. 35 per share called up on which Rs. 25 per share has been paid by Rakesh; the amount of first call of Rs. 10 per share being unpaid. The directors reissued the forfeited shares to Baldeo crediting Rs. 35 per share paid for a payment of Rs. 25 per share.
3. The directors of D Ltd. forfeited 100 shares of Rs. 100 each called up for non payment of final call money of Rs. 50 per share. Half of these shares were subsequently reissued at Rs. 120 per share as fully paid.
4. E Ltd. forfeited 200 shares of Rs. 100 each (issued at a premium of 10%) for non-payment of first call of Rs. 25 and final call of Rs. 15. Of these 150 shares were reissued for Rs. 90 per share.
5.

QUESTION14 (Forfeiture after first call) Bhavna Ltd. offered 10,000 equity shares of Rs. 100 each for subscription at a premium of Rs. 20 per share payable as follows:

On Application Rs. 10
On Allotment Rs. 40 (including premium)
On First Call Rs. 20
On Second Call Rs. 30
and balance on Final Call.

The company received applications for 12,000 shares and 10,000 shares were allotted pro-rata.

Holders of 400 shares failed to pay the first call and after due notice, their shares were forfeited. The amounts payable on second call were paid in full except that a holder of 200 shares failed to pay.

250 of the 400 shares forfeited were reissued, credited Rs. 80 paid for Rs. 50 per share. The final call was met in full including the arrears of the second call. Journalize the transactions including cash transactions in the books of the company. **B.Com (Mumbai), CA Foundation(12 marks)**

QUESTION 15 (Different bases of allotment and interest on calls-in-advance) Over-Confident Co. Ltd. issued a prospectus offering 2,00,000 Equity Shares of Rs. 10 each on the following terms:
On Application: Re. 1
On Allotment: Re. 3 (including premium of Rs. 2)
On First Call (three months after allotment) : Rs. 4
On Second Call (three months after first call) :Rs. 4
Subscriptions were received for 3,17,000 shares on 23 April 2004 and the allotment made on 30 April was a under :
Shares Allotted
(i) Allotment in full (two applicants paid in full on allotment in respect of 4,000 shares each) 38,000
(ii) Allotment of two-thirds of shares applied for 1,60,000
(iii) Allotment of one-fourth of shares applied for 2,000
Cash amounting to Rs. 31,000 (being application moneys received with applications for 31,000 shares upon which no allotments were made) was returned to the applicants on 5 May. The amounts due were received on the due dates with the exception of the final call on 100 shares. These shares were forfeited on 15 November and reissued to Vandana on the 16 November for payment of Rs. 9 per share. The company paid the interest due on calls-in-advance on 30 October in cash. Show the journal and cash book entries and draw a balance sheet of the company giving effect to the above transactions. **[CMA INTER]**

Question 16 (Reissue of forfeited shares originally issued at premium) The directors of Mamta Ltd. invited applications for 2,00,000 equity shares of Rs. 10 each to be issued at 20 per cent premium. The amount payable per share is as under :

On Application : Rs. 5
On Allotment : Rs. 4 (including premium of Rs. 2)
On First Call : Rs. 2
On Final Call : the balance.
Applications were received for 2,40,000 shares and allotment was made as follows :
(a) To applicants for 1,00,000 shares - in full.
(b) To applicants for 80,000 shares - 60,000 shares
(c) To applicants for 60,000 shares - 40,000 shares
Applicants for 1,000 shares falling in category (a) and applicants for 1,200 shares railing in category (b) failed to pay allotment money. These shares were forfeited on failure to pay first call.

Holders of 1,200 shares falling in category (c) failed to pay first call and final call and these shares were forfeited after final call. 1300 shares [1,000 of category (a) and 300 of category] (b)] were reissued at Rs. 8 per share as fully paid.

Journalize the above transactions. Show Cash Book and prepare Balance Sheet. **[CS EXECUTIVE]**

Question 17. A & B Ltd. offered to public on 1st April, 2017; 1,00,000 Equity Shares and 50,000 Preference Shares of 10 each payable as under:

	Equity Shares (Rs)	Preference Shares(Rs)
On application	3	3
On allotment (1st May)	3	4
On first and final call (1st September)	4	3

Subscription was received for 1,20,000 Equity Shares and 45,000 Preference Shares. Application for Preference Shares were accepted in full. Out of applications for Equity Shares, application for 10,000 shares were rejected; applications for 85,000 shares accepted in full and 15,000 share were allotted to the remaining applicants.

All amounts were received except the amount due on call on 1,000 Equity Share 500 Preference Shares. Pass entries in the Cash Book and Journal.

Question 18. (Pro-rata allotment and forfeiture immediately on default of one installment)
Sonia Beauty Products Limited issued a prospectus inviting applications for 20,000 shares of Rs. 10 each at a premium of Rs. 2 per share payable as follows:
On Application Rs. 2
On Allotment Rs. 5 (including premium)
On First Call Rs. 3
On Second Call Rs. 2
Applications were received for 30,000 shares and allotment made *pro-rata* to the applicants for 24,000 shares, the remaining applications being refused. Money overpaid on applications was employed on account of sums due on allotment. Reetika, to whom 400 shares were allotted, failed to pay allotment money and her subsequent failure to pay the first call, her shares were forfeited. Bithika, the holder of 600 shares failed to pay the two calls, and her shares were forfeited after the second call had been made. Of the shares forfeited, 800 shares were sold to Geetika credited as fully paid, for Rs. 9 per share, the whole of Reetika's shares being included. Show journal and cash book entries and the balance sheet. **[I.C.W.A. (Inter)]**

Question 19. (Forfeiture and reissue of shares originally issued at premium) Priyanka Ltd. issued to public 3,00,000 equity shares of Rs. 10 each at a premium of Re 1 per share. The amount was payable as to Rs. 2 with application, Rs. 4 (including premium) on allotment and Rs. 5 on first and final call.

Applications totaled 6,11,000 shares. The Board of Directors rejected applications for 11,000 shares and made allotment on all the remaining applications on a *Pro-rata* basis.

Purnima to whom 300 shares had been allotted did not pay the balance of allotment money and subsequently the call money. Qasim who held 450 shares did not pay the call. Their shares were forfeited three months after making of the call. All the forfeited shares were reissued as fully paid up to Ravi at the rate of Rs. 11 per share. You are required to pass journal entries for all the transactions including cash transactions. [**C.S.(Inter) June 2000]**

Question 20. *(Pro-rata* allotment and forfeiture after the final call) Dhananjay Ltd. was registered with a nominal capital of Rs. 20,00,000 in equity shares of Rs. 100 each. 10,000 of these shares were issued to the public at a premium of Rs. 20 per share, payable as to Rs. 20 on application, Rs. 45 on allotment including premium, Rs. 25 on first call and the balance on final call. Applications were received for 13,000 shares and allotment was made *pro-rata* to the applicants of 12,000 shares. Money over-paid on application was employed on account of sums due on allotment. Prakash holding 200 shares paid the whole of the amount due on first call along with the allotment but failed to pay final call. Ali holding 300 shares failed to pay the two calls and John holding 400 shares failed to pay the final call only. All these shares were forfeited after the final call. Of the shares forfeited, 200 shares belonging to Ali and 200 shares belonging to John were sold to Raju as fully paid for Rs. 90 per share. Show the journal entries including cash in the books of the company.

Question 21 (Securities premium account credited only when the premium is actually received) Viney limited issued a prospectus inviting applications for 40,000 shares of Rs. 10**,** each at a premium of Rs. 2 per share payable as under:

On Application : Rs. 2 per share
On Allotment : Rs. 5 per share (including premium)
On First Call : Rs. 3 per share
On Second Call : Rs. 2 per share

Applications were received for 60,000 shares including one from Nitin who applied for 1,400 shares. Shares were allotted to the applicants including Nitin to whom only 1,000 shares were allotted, the remaining applications were refused and amount refunded. Money overpaid by Nitin on application was employed on account of sums due on allotment. Nitin failed to pay the allotment money due and on his subsequent failure to pay the first call, his shares were forfeited. These were sold to Rajiv at Rs. 10 each fully paid including premium. Amount due on the second call was received in full from all the shareholders. Show the journal entries in the books of the company.

Question 22. JYOTI' Ltd. invited applications for the issue of 1,00,000 equity shares of Rs. 10 each payable Rs. 4 on application. Rs. 5 (including Rs. 3 as Securities Premium) on allotment and balance on first and final call. The prospectus provided that in case of partial allotment, money received in excess on application would be adjusted towards the amounts due on allotment and call.

The company received applications for 2,50,000 shares out of which applications for 50,000 shares were rejected out rightly and other applicants were allotted shares on pro-rata basis. The company received all moneys due on allotment and call except from one shareholder (who applied for 2,000 shares) who failed to pay the allotment and the call moneys. The company forfeited his shares. Out of the forfeited shares, the company reissued 600 shares at the rate of Rs. 8 per shares, fully paid up.

You are required to record the above transactions. Prepare Share Forfeited Account Capital Reserve Account and show the relevant items in the balance sheet of the company.

Note :- remaining questions are not relevant for your examination.

Question 33. On 1st April, 2012, Vishwas Ltd. was formed with an authorised capital of 10,00,000 divided into 1,00,000 equity shares of 10 each. The company issued prospectus inviting application for 90,000 equity shares. The company received applications for 85,000 equity shares. During the first year, 8 per share were called. Ram holding 1,000 shares and Sham holding 2,000 shares did not pay the first call of 2 per share. Shyam's shares were forfeited after the first call and later on 1,500 of the forfeited shares were reissued at 6 per share, 8 called-up. Show the following: (a) Share capital in the Balance Sheet of the company as per Schedule Ill, Part 1 of the Companies Act, 2013. Also prepare 'Note to Accounts' for the same. **(CS EXECUTIVE 2014, Modified)**

Question 35. XL Ltd. invited applications for issuing 1.00,000 equity shares of 10 each at par. The amount was payable as follows:

On Application Rs3 per share;

On Allotment Rs 4 per share; and

On First and Final Call Rs 3 per share.

The issue was oversubscribed by three times. Applications for 20% shares were rejected and the money refunded. Allotment was made to the remaining applicants as follows:

Category	No. of Shares Applied	No. of Shares Allotted
I	1,60,000	80,000
II	80,000	20,000

Excess money received with applications was adjusted towards sums due on allotment and first and final call. All calls were made and were duly received except the final call by a shareholder belonging to Category I who has applied for 320 shares. His shares were forfeited. The forfeited shares were reissued at 15 per share fully paid-up.

Pass necessary Journal entries for the above transactions in the book of XL Ltd. Open Calls-in-Arrears and Calls-in Advance Account whenever required.

Question 40. X Ltd. issued 40,000 Equity Shares of 10 each at a premium of 2.50 per share. The amount was payable as follows:

On application Rs 2 per share,
On allotment Rs 4.50 per share (including premium), and
On call Rs 6 per share.

Owing to heavy subscription the allotment was made on pro rata basis as follows:

(i) Applicants for 20,000 shares were allotted 10,000 shares.

(ii) Applicants for 56,000 shares were allotted 14,000 shares.

(iii) Applicants for 48,000 shares were allotted 16,000 shares.

It was decided that excess amount received on applications would be utilised on allotment and the surplus would be refunded. Ram, to whom 1,000 shares were allotted, who belongs to category (i), failed to pay allotment money. His shares were forfeited after the call. Pass necessary Journal entries in the books of X Ltd. for the above transactions.

Question 42. A company issued 1,00,000 Equity Shares of Rs 10 each on the following terms: 3 payable on application, 4 on allotment, the balance as and when required. Applications were received for 1,40,000 Equity Shares. Allotment was made as under:

80,000 applications were given 80,000 Equity Shares,
50,000 applications were given 20,000 Equity Shares, and
10,000 applications were not allotted any share.

A shareholder who applied for 1,000 Equity Shares and was given 1,000 shares failed to pay the allotment money. His shares were forfeited. Pass Journal entries to record the above transactions.

CHAPTER 10 C. ISSUE OF DEBENTURES

1. Introduction:-- A debenture is a bond issued by a company under its seal, acknowledging a debt and containing provisions as regards repayment of the principal and interest.

Under section 71 (1) of the Companies Act 2013, a company may issue debentures with an option to convert such debentures into shares, either wholly or partly at the time of redemption. Provided that the issue of debentures with an option to convert such debentures into shares, wholly or partly, shall be approved by a special resolution passed at a duly convened general meeting. Section 71 (2) further provides that no company can issue any debentures which carry any voting rights.

Section 71 (4) provides that where debentures are issued by a company under this section, the company shall create a debenture redemption reserve account out of the profits of the company available for payment of dividend and the amount credited to such account shall not be utilized by the company for any purpose other than the redemption of debentures.

Issue of debentures for consideration other than cash

Question1 **X** Ltd purchased a machine costing Rs 99,000 payable by issue of 10% debentures of Rs 100 each at
Case 1. Par
Case 2. Premium of 10%
Case 3. Discount of 10%

Question2 Blue Prints Limited Purchases building worth Rs. 1,50,000, plant and machinery worth Rs. 1,40,000 and furniture for Rs. 10,000 from Wadhwa and Company and took over liabilities of Rs. 20,000 for a purchase consideration Rs. 3,15,000. Blue Prints Limited paid the purchase consideration by issuing 12% debentures of Rs. 100 each at a premium of 5%. Pass the necessary journal entries.

Question3 Assume in the previous question purchase consideration was Rs 2,70,000 and payment was made by issue of 12% debentures of Rs 100 each at a discount of 10%.

Question4 **(Issue of debentures to vendors with part payment in cash)**
G.W.K Ltd. purchased assets worth Rs. 4,50,000 and took over liabilities of Rs. 35,000 of K.L.M. and Co. for a purchase consideration of Rs. 4,00,000. The purchase price was paid by issue of Rs. 100, 12% debentures at a premium of 10% The debentures of GWK Ltd. are quoted in the market at Rs. 140 at the relevant time. You are required to give journal entries to record the above transactions in the books of the purchasing company.

Debentures issued as a collateral security:-

a collateral security may be defined as additional security in addition to some principal security. When a limited company obtains a loan from bank or any other financial institutions, it may pledge some assets as a security against the said loan. But the lending institution may insist on some more assets as collateral security so that the amount of loan can be realized in full with the help of collateral security. In such case company may issue its debentures as collateral security. The collateral security will not be used or realized as long as company fulfills its obligation regarding payment of interest when due and repayment of loan on the maturity date. If the amount realized from sale of principal security falls short of the loan money, then loan of lending institution converted into debentures of the company and lending institution claims all the right of being a debentureholders. Debentures issued as collateral security will be realized by the lender only in case the loan is not repaid on the due date.

TREATMENT OF ISSUE OF DEBENTURES AS COLLATERAL SECURITY

Question5 A Ltd borrowed loan of Rs 10,00,000 from HDFC Bank. Company pledged machinery worth Rs 40 lacs. In addition to machine company issued 40,000,12% debentures of Rs 100 each to the bank as collateral security. Show its treatment in the book of A Ltd.

Issue of debentures for cash

Question6 **(Terms of issue and redemption)** Give journal entries for the following:
(a) Issue of Rs. 1,00,000 – 9% Debentures at par and redeemable at par.
(b) Issue of Rs, 1,00,000 – 9% debentures at premium of 5% but redeemable at par
(c) Issue of Rs. 1,00,000 – 9% Debentures at a discount of 10%, repayable at par.
(d) Issue of Rs. 1,00,000 – 9% Debentures at par but repayable at a premium of 5%.
(e) Issue of Rs. 1,00,000 – 9% Debentures at discount of 5% but redeemable at premium of 5%.
(f) Issue of Rs. 1,00,000 – 9% Debentures at premium of 5% but redeemable at premium of 5%.

Question7 Pass journal entries in year 1 in the case of the issue of debentures by ABC Co. Ltd.: Issued Rs. 1,00,000,11% debentures at 95 per cent redeemable at the end of 10 years (i) at 102 per cent, and (ii) at 98 per cent.

[C.A. (Inter) May 2000]

DEBENTURE INTEREST

Question8 On 1st Jan 2010**,** X Ltd issued 12% debentures of Rs 2,00,000 at a premium of 15%. Interest is payable half yearly on 30th June and 31st December each year. Make journal entries assuming that accounts are closed on 31st December each year. Assume that interest due on 31st December has not yet been paid.

Question9 On 1st Jan 2010**,** X Ltd issued 12% debentures ofRs 2,00,000 at a discount of 10%. Interest is payable half yearly on 31st march and 30th September each year. Make journal entries assuming that accounts are closed on 31st December each year.

Question10 Babli Auto Limited had Rs. 10,00,000 -12% Debentures on which the interest is payable on 30 September and 31 March. Show the necessary journal entries relating to debenture interest for the year ending on 31 March 2004 assuming that all payments to debentureholders and Government were made in time. Tax deducted at source is 10%.

DISCOUNT/ LOSS ON ISSUE OF DEBENTURES

Question11 A company issued 9% Debentures of the face value of Rs. 2,00,000 at a discount of 6%. The debentures were repayable by annual drawings of Rs. 40,000. How would you deal with the discount on issue of debentures? Show the discount account in company's ledger for the duration of debentures.

Question12 A company issued 9% Debentures of the face value of Rs. 2,00,000 at a discount of 6%. The debentures were repayable as follow

Year end	amount repaid
2	40,000
4	1,20,000
5	40,000

How would you deal with the discount on issue of debentures? Show the discount account in company's ledger for the duration of debentures.

Question13 Rashi Ltd. issued 12%Debentures at 94% for Rs. 1,00,000 on 1 July 2003 repayable by five equal annual installments of Rs. 20,000 each. The company closes its accounts on 31 March every year. Indicate the amount of discount to the written off every accounting year assuming that the company decides to write off the debenture discount during the life of the debentures.